* MARKET OVER NEXT FORTNIGHT *

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

DECEMBER 7, 1957 — 85 CENTS

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THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*

The Trend of Events

THE PEOPLE ARE NOT HYSTERICAL — THE PRESS IS! . . . When you have to get out a paper every single day it is a difficult task to find important headline happenings that can be used for front-page stories. Thus the tendency is to over-dramatize the news and expand it day by day from various angles until something new comes along to take its place that can be played up in an equally exciting fashion. Then what had previously been spectacular is relegated to the inside pages.

In the case of the Sputnik, a disservice was done to this country when Russia's achievement was plastered over the front pages of the press all over the country day after day, day after day.

The testimony of Dr. Teller was made to look utterly hysterical for, as we all know, only a year or so back scientists were saying that Russia was ten years away from a ballistic missile or satellite. Now, according to Dr. Teller, it is we who are ten years away!

The truth is, as we point out in our story in this issue, "Industries to be Involved in the Missile Program"—that the United States has made tremendous scientific progress in heat resistant materials, in high energy fuels, electronics, etc., etc., so that important advances for missile and satellite production are already behind us. We call attention to these accomplishments in a way that leaves no doubt that concentrated and dedicated work at this time will produce results with great rapidity—for Russia has aroused our pride by her taunts, and inspired us to dedicated effort to meet the challenge.

We have no more to fear today than we had before Russia launched the Sputniks. We are bound to make the grade, for the American people have a background of daring and resourcefulness in a crisis—a heritage from those whose courage and stamina built a great state out of a trackless wilderness. They were men and women to whom obstacles were stepping stones and the impossible a challenge to attack and conquer.

And now that we are beginning to marshal our scientific brains, I doubt whether it is going to be long before we accomplish our purpose. Brains and dedication—not money—is the answer. We should not doubt our own proven capabilities or be influenced by propaganda—or by hysterical expressions of concern. Putting the Thor and Jupiter into production before they had proven their operational efficiency was apparently soothing syrup for home consumption—because the Russians and the rest of the world that is important to us, are aware that neither have been perfected. As someone said a long time ago, "it is a lot of baloney no matter how thin you slice it".

It was interesting to have a top-level journalist just returned from behind the iron curtain tell us that the news about Sputnik was shrugged off with the observation — "So what — Russia sent up the first satellite. But we know when the United States sends one up it will be much, much better". It is clear their confidence in our scientific leadership was unshaken by the Russian government. The people living on Russia's bor-

(*Continued on page* 376)

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

As I See It!

By JAMES J. BUTLER

PRESIDENT EISENHOWER AND RICHARD NIXON

Motivated by soldierly devotion to duty as he sees it, Prsident Eisenhower is again returning to his taxing and strenuous job. And an anxious country is wondering whether he is physically fit to carry on—and whether we have the right to demand (or accept) that he pay the awful price Lincoln described at Gettysburg as "the last full measure of devotion". His return to the responsibilities of the Presidency might very well exact the ultimate price.

To a man of lesser recorded contribution to his country and to the world, the proposal that he now lay down the burden might be taken as a reflection on him. In the case of Dwight David Eisenhower, the suggestion carries nothing but the highest compliment and concern of a grateful citizenry. It is a "Thank you, Mr. President", and the coveted military citation, "Well Done!".

General Eisenhower owes it to himself and to his family to retire—now. The country owes it to him to make emphatically clear that he has met and exceeded any reasonable call a nation may make upon the services of one of its sons. It must be made crystal clear to him that, having established the architecture of a basically sound policy, it is not expected of him that he personally direct every last detail of its implementation. He must be convinced that the chore may be entrusted to other hands—hands made ready and able by his own wise policy of delegation.

Vice President Richard Nixon has made outstanding progress and grown in stature under the responsibilities given him by Ike. Whether Nixon is viewed from a partisan slant or analyzed with objectivity, this cannot be rationally disputed: He is the best trained man for the Presidency of the United States to be found today in either party. He has more solid background for the job than most of our Presidents had when they came to office. He has traveled the world over and made friends for the United States on official goodwill missions. He has carried the message of America to every continent, to every race. Nixon knows the international status as well as any man in the world, and much better than most heads of state. He has yet to "put his foot in his mouth" in the delicate give-and-take of diplomacy.

Nixon's Meteoric Rise

Richard Nixon came up the hard way in his apprenticeship to mastery of domestic political and governmental matters. He served in the House of Representatives (nominated, believe it or not!, after he answered a published advertisement for a candidate to run on the Republican ticket). He has served in the United States Senate and for five years has been its presiding officer. He knows the administrative side of Government too, because he was one of the vast army of "government lawyers in Washington" before entering military service.

The Vice President has the complete confidence of President Eisenhower. It is not as if the mantle might fall on the shoulders of one untrusted or (almost as bad) untried. Ike has dedicated the past five years to the creation and operation of a system of domestic and foreign affairs administration, with Richard Nixon as his key lieutenant. Increasingly in the past few years, Nixon has been given authority, latitude, and discretion. He could step into the No. 1 job overnight and there would be no hitch in the forward movement.

The Hate Nixon Propaganda

In the light of his substantial qualifications, why is Nixon so violently "hated" by so many people? Is it because he is young—that his talents make him feared as a threat to men with ambitions for high office themselves? If this presumed dislike was based on anything tangible it would have manifested itself in the last National Convention of the Republican Party, where influential people sought to deny him the re-nomination, and, yet, finally he was the Convention's unanimous choice—and was elected in the face of the heavy attacks by the democrats, who made Ike's illness an issue in the campaign and pictured Nixon as a "hazard" which they asserted

only a vote for Adlai and Estes could blot out!

Undoubtedly the Democrats have been enraged at Nixon for the Alger Hiss affair and for the bitter attacks which characterized some of his political campaigns.

That the Vice President went through a stage of political growth in which he was lacking in tact and the know-how of lasting political popularity cannot be denied. He has matured in the service. No longer does one read or hear of the man except in the sense of creditable performance. He is a tactician of extreme competence, and the way he rearranged the California GOP ticket is fresh proof of his political acumen. It is interesting to note that Mrs. Franklin D. Roosevelt in a recent television "tell all" interview, when asked what she thought of Richard Nixon, labeled him a man of outstanding intelligence who might very readily "grow into" Presidential stature. Not a word of criticism from FDR's widow!

The Nation is fortunate in having such a well-equipped vice president to take over the reins if the president should decide to retire—because being a dedicated soldier, he might feel that his state of health would not permit him to do the kind of job he so eagerly wants to do, and is so essential at this crucial time in world affairs.

It might serve the country well to be able to take the measure of Richard Nixon before the next Presidential race. And if he makes good in the two years left, as we believe he will, Nixon is bound to be elected as the next President of the United States. In fact, he has a runaway headstart for the nomination now. If he is less than a brilliant success as a successor to President Eisenhower, assuming the President steps down, he will be be irrevocably lost, for he will have played into the hands of his political enemies.

Unanimous Expression of All America

Republican Party Let Ike Down

The circumstances that makes this discussion necessary does no credit to President Eisenhower's party. It should be clear by now that it was grossly improper for the party leadership to persuade him to second-term candidacy if those leaders did not intend to live up to their understanding with Eisenhower. The reluctant candidate had placed the facts of his past illnesses on the record, made it emphatic that he could not be expected to handle all the minutiae of office as well as the major decisions, if re-election came to him; that he would be required to count on aides and party solidarity. But once back in office and with patronage again assured, the GOP gave Ike more trouble than the Democrats. They voted against him on major policy tests; they ridiculed and riddled his budget—with Democratic cooperation. They forced his hand to enter into election contests to support candidates who had no claim to his interest other than the partisan GOP tag. Ike was euchred into indorsement of the futile gubernatorial race Ted Dalton was making against Democrat Lindsay Almond in Virginia. In New Jersey where every political popularity poll and committee analysis showed Malcolm Forbes didn't have a ghost of a chance of unseating Governor Meyner, Democrat, President Eisenhower was forced onto the firing line with a sincere-sounding prayer for Forbes, somehow, to make the grade. The result was that not only the Daltons and the Forbes have been thumped, but the impression was created that Ike had lost some of his popularity. He found himself a political St. Jude – the "Saint of Hopeless Cases".

The Presidency requires the stamina and strength of a man in robust health. Ike was in bad health through much of his first term, not only in the incidents of major ailments, but also in the little-noticed illnesses which confined him to his quarters several times. He ran because he was told the load would be lightened. Events brought a contrary result.

It was inevitable on the basis of the President's medical record that completion of a second term without critical physical impairment would be difficult if not impossible. It has proved impossible. The time for risk-taking has passed. Common sense dictates that the one sure way for President Eisenhower to witness the fulfillment of his program is to essay the role of elder statesman now—and place his trust in a man in whom he has confidence and is young and experienced enough to carry the back-breaking load.

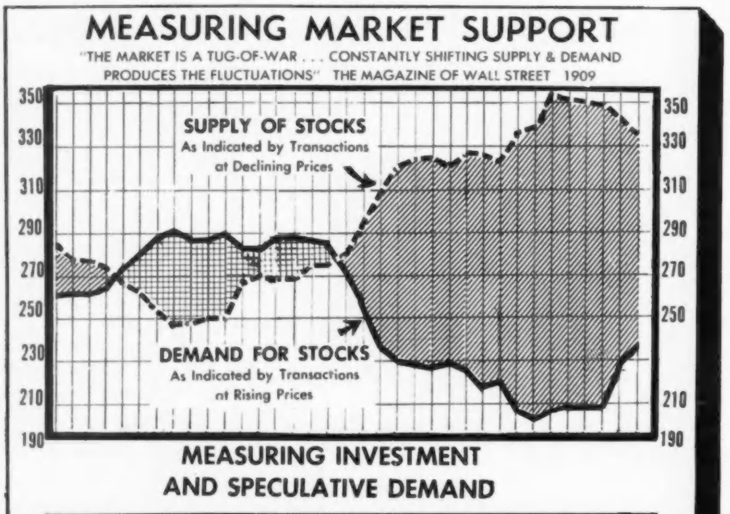
Market Over Next Fortnight

Although its ultimate implications are not clear, the President's latest illness appears to have been a transient market factor. The recent recovery in stock prices has been extended. Excepting utilities and some other income stocks, it is mainly technical but could move further over the near term—in the traditional year-end rally.

By A. T. MILLER

The industrial and utility sections of the stock market have now maintained an irregular recovery from their October lows for nearly six weeks, and were able to extend it last week before and after absorbing the surprising news that President Eisenhower had suffered a mild stroke instead of the "chill" initially reported. Coming late in the Tuesday (November 26) trading session, the news precipitated a heavy selling wave which took the Dow industrial average down about 14 points from that session's best intra-day level; and down 9.04 points net on the day. No technically-significant support level was broken, and reassuring overnight medical reports brought a rebound of 10.69 points to a new rally high in the Wednesday session.

Following the holiday recess, improvement in average stock prices carried moderately further, in less active trading, up to our press closing time. The industrial average has now made up nearly 30% of its July-October decline; the utility list about half of its May-October fall, with this group especially aided by the Federal Reserve's shift to an easier money policy. The performance of rails remains inferior. The average sagged to a new low as late as November 19 at 98.77, down from July recovery high of 153.81 and from 1956 bull-market top of 181.23, extending the total decline to more than 45%. With subsequent rallies small, the closing level last week was 103.97. In relation to industrials, rails are more depressed than in a great many years. A sizable rally, after cessation of tax selling, is possible. Basis for a real reversal of trend is not apparent.

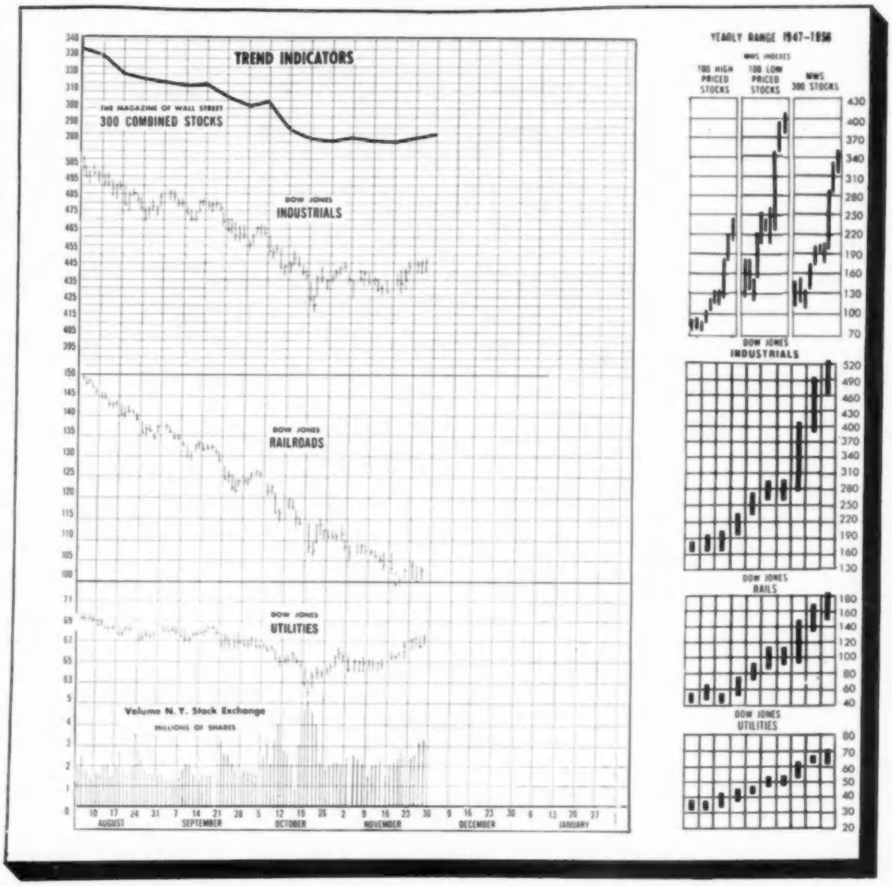


The Nearby Outlook

It is not clear at this writing to what extent and for how long the President's official activities will be limited. This is his third serious illness in little more than two years. News of it brought some immediate talk about his possible resignation. But whether he remains in office or not, there will be lingering uncertainty about his health and the effectiveness of his leadership during the rest of his term. Obviously, that is unfortunate at a critical time in defense planning, at a time of at least moderately accelerating business recession, and at a time when the confidence of the Free World in U.S. leadership must not be seriously impaired. However, Vice-President Nixon has become increasingly equipped, regardless of differences of opinion about his stature, to assume major responsibilities, if necessary; and has gained considerably in public respect. It seems apparent that the maximum impact of the President's illness on investment sentiment has been absorbed.

It appears evident also that it would

take more than the remaining amount of tax selling to bring significantly renewed over-all pressure on the industrial list. We conclude that—barring some unpredictable major shock in the foreign news—the industrial average very likely recorded its 1957 low in October; and that it may well work at least moderately and irregularly higher into the forepart of January. More recovery could be justified on technical grounds alone. Additionally, as a result of the easier-money policy and indications of an appreciably higher 1958 level of defense spending than had been expected earlier, investment apprehensions regarding the scope and duration of the business recession have been relieved to some extent. But we are not out of the woods; recession is a fact; and it will show up markedly in corporate profits in most lines of business both in the fourth-quarter reports and probably in those at least for the 1958 first half.



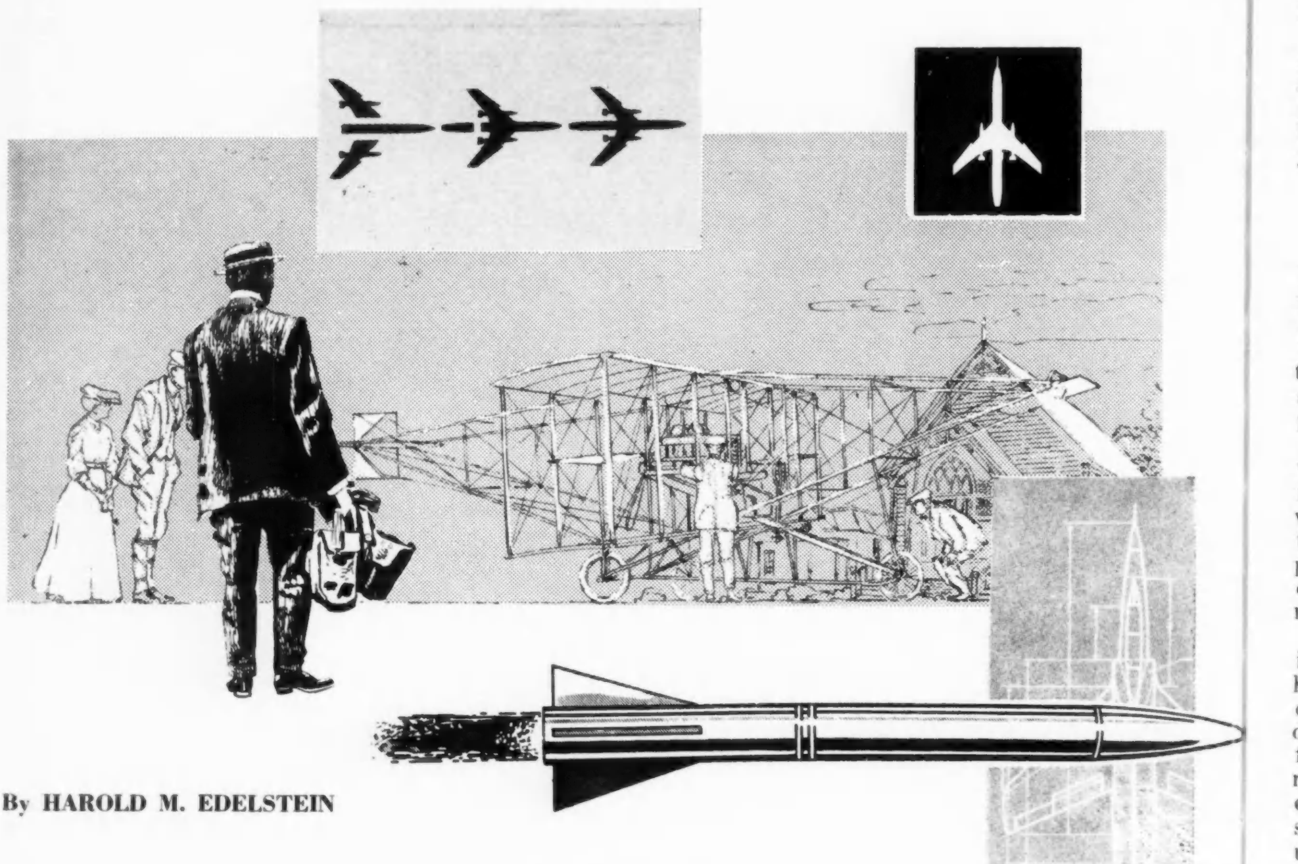
Therefore, following some further intermediate-swing recovery, if we get it, another look will in any event be necessary. There is no change in our view that, with few exceptions, the situation is not inviting for expansion of commitments in common stocks; and that rallies should be utilized for elimination or further paring down of undesirable holdings, with general investment strategy aimed at strengthening portfolios along defensive lines. It is, of course, possible that the greater part of the total decline in industrial stock prices—perhaps even all of it—has been put behind; but there can be no assurance about it, pending a later test; and meanwhile the obstacles to anything like a broad and sustained market advance, as distinct from an interim recovery, are obvious and, in our opinion, decisive.

The bond market improvement should continue, subject to normal pauses and corrections, but certainly not at the recent fast pace, until events foreshadow renewed expansion in business activity and resurgence of inflationary pressures capable of bringing termination of easier credit policy and a shift in the opposite direction. That is certainly some distance "around the corner". It follows that money-market stocks—utilities and the minority of stable-dividend industrial stocks with prospects for well maintained, or higher, 1958 earnings, have also in all probability made a basic turn; and are likely to trend gradually and moderately upward, subject of course to money market conditions. They are not likely to be bold or hurried however, since the present spread between bond yields and high-grade income stock yields is far from historically wide. It is fairly narrow in the case of representative industrials of the Dow-Average type.

The Business Scene

Because of general and marked over-expansion of facilities, there is no basis in sight, regardless of easier credit, for a reversal of the downtrend in outlays for new plant and equipment, which is the biggest factor in the business recession. It might await an extended period of growth in population and consuming demand. Nor is there a basis in sight for reversal of present pressure to hold down business inventories. Although no big shrinkage in consumer spending is likely, it is pointing at least slightly downward, as indicated by retail trade, mainly in reflection of reduced employment and average weekly "real" pay in manufacturing industries. The 1958 automobile outlook is still a question mark. The recent official forecast of a 5% rise in total 1958 outlays for construction must be regarded with some scepticism. The only over-all plus factor that we can see is a rising trend in Federal and other governmental spending.

All in all, we continue to advise a cautious, conservative, highly selective investment policy at this stage.—MONDAY, DECEMBER 2.



By HAROLD M. EDELSTEIN

INDUSTRIES to be involved in the MISSILE PROGRAM

—With new advances in altitude technology — metallurgy — ceramics — fuels — chemistry — electronics — What has been done — and what remains to be done — Companies to benefit in these areas

■ Although the Russians beat us to the "spacial" punch by placing their two Sputniks in orbit earlier than we thought, the United States is not nearly as far behind as newspaper headlines, hysteria and partisan politics would lead us to believe. Actually, our industrial and military scientists and engineers have performed a whole series of "miracles" in evolving techniques, and producing the materials necessary for the successful launching of a space satellite. But our launching has been held back by a decision to concentrate the greater part of our rocket efforts on weaponry.

It should be remembered that both the United States and the Soviet Union, as far back as 1954, agreed to place artificial moons in space as part of their national efforts in connection with the International Geophysical Year. Even rudimentary familiarity with Russian psychology in international affairs is sufficient evidence that the Kremlin would not have made the commitment unless it was sure it could produce.

The reason for her certainty, and for our own as well, is that most of the important technology for launchings into outer space had already been devised by the Germans for their V-2 rockets of World War II vintage. About all that was needed for the giant step were more powerful propulsion systems—and they have already been developed by both countries.

It is clearly evident that we were also capable of launching a satellite, if that had been our sole aim. We could have done the trick by coupling two or more of our existing rocket engines to a missile of the Jupiter type, which has already demonstrated its ability to make the journey into the upper reaches.

But we didn't!

And while we delayed, for various political and economic reasons—the Russians got busy. They were aware of the slow-down in our satellite program, and in fact, knew our complete timetable, for it had been published in scores of technical and popular journals.

Missiles and Satellites

The fact that our Project Vanguard is still earthbound, however, does not mean that we are behind the Russians in the race for an operational ICBM (intercontinental ballistics missile). To understand why, and to place the U.S. missile progress versus the Russians in proper focus, it is helpful to understand some of the problems any missile development program must face.

And here the surprising thing is that most of the vital difficulties fall within the scope of studies confronting the designers and manufacturers of conventional aircraft. Our industrial and military scientists have been working along these lines at a steady pace, although in a strict sense their efforts do not come within the governmental nomenclature designating specific missile programs.

How closely these programs are really allied is indicated by the fact that aerodynamics engineers have already worked out designs for aircraft that cannot be produced until new materials have been developed by metallurgists. At the speeds projected for some of the advanced designs most conventional metals would melt because of the terrific heat generated by the abrasive action of the air against the ship's "skin". For this reason, both on its own and under the prodding of the Manufacturing Methods Branch of The Air Materiels command, industry has for years been experimenting with "exotic" metals, seeking super alloys capable of withstanding the rigors of high speed flight through the earth's atmosphere.

Metallurgical Advances

One promising avenue is presented by the "wonder" metal Beryllium, which is six times as strong as steel and weighs only one-third as much as aluminum. Most significantly, it is known to retain all of its desirable qualities at a temperature of 1200 degrees F. But these very qualities also render Beryllium impervious to established manufacturing methods. It machines like glass; is so abrasive that cutting tools are worn down in short order; and is as difficult to bend as a sheet of plate glass. To further compound the problem it is highly toxic, so that elaborate precautions must be taken for the safety and well being of anyone working with the material.

It is worthy of note, also, that the total supply of sheet Beryllium in the U.S. at the present time is not much larger than a two-page spread in this magazine. Nevertheless, it may be recalled that only five years ago Titanium posed similar problems, yet today it is so plentiful in usable form that producers are seeking non-military outlets for their production.

While waiting for Beryllium, or some other wonder metal to be conquered, however, important progress has been made with conventional metals. Dow Chemical has produced an alloy usable as an aircraft skin, capable of withstanding 600 degrees F; and Westinghouse has produced a super-alloy, called W545 that has successfully withstood 1200 degree

Important Companies In Missile Program

COMPANY	SPECIAL MISSILE ACTIVITIES
Air Reduction	Liquid oxygen and gases for missiles, aircraft and electronics.
Allied Chemical & Dye	Missile fuels, Liquid Fluorine, Fuming Nitric Acid, and Hydrogen Peroxide.
American Potash & Chemical	Boron, Lithium and Perchlorates.
Bendix Aviation	Prime contractor missiles (Talos, Talos L, Tartar) electronic and aviation equipment.
Cincinnati Milling Machine	New machine tools and processes.
Consolidated Electrodynamics	Scientific electronic control instruments.
Corning Glass	Ceramic missile components.
Douglas Aircraft	Major missile and plane maker (Thor, Sparrow II).
Ex-Cell-O Corp.	Special machine tools for precision parts.
Fansteel Metallurgical	Tantalum, Columbium, Tungsten, Molybdenum.
Garrett Corp.	High altitude technology.
General Dynamics	Planes, various missiles (Atlas, Terrier), missile fuels—Liquid oxygen, ion propulsion.
General Electric	Missile propulsion and guidance systems.
General Tire & Rubber (Aerojet)	Fuels—Free radicals generation and research.
Hercules Powder	Missile fuels—Boron—Nitric Acid.
Hooker Electrochemical	Missile fuel—Perchlorates.
International Tel. & Tel.	Missile electronic equipment.
Lockheed Aircraft	Plane and prime missile maker (Polaris).
Martin Co.	Major Missile & Plane Contractor (Vanguard, Bullpup, Titan, Lacrosse, Matador), ion propulsion and research.
Minneapolis-Honeywell Regulator	Aviation control instruments.
North American Aviation	Major missile mfg. (Atlas, Tarter, Terrier I and II), ion propulsion, rocket engines.
Northrop Aircraft	Prime missile contractor (Snark).
Olin Mathieson Chemical	Missile and rocket fuels—Boron, Hydrazine, and research.
Raytheon Mfg.	Missile contractor (Hawk, Sparrow III) and missile research.
Smith (A. O.) Corp.	Special machine forgings.
Sperry Rand	Major missile contractor (Sparrow I), missile systems, electronic instruments.
Thiokol Chemical	Solid propellant rocketry, missile fuels—Boron.
U. S. Borax & Chemical	Missile fuel—Boron.
Vanadium Corp.	Metallurgy, alloys of aluminum, columbian, titanian and vanadium, and boron research.
Westinghouse Electric	Electronics, metallurgy, radar equipment, missiles and controls.

heat blasts in jet engine. Other methods are improving tungsten and molybdenum, both with highly desirable heat-resistant properties; and exciting new work is being done with such weird sounding metals as zirconium, hafnium, columbium and tantalum.

The Shape of Things to Come

Equally significant are the advances already made in machining and shaping these extra tough new materials. Usual methods won't suffice because most of these metals are considerably harder than the substances we now use for cutting and chipping. Cincinnati Milling Machine, however, has developed a "Hydrospin" process which takes a piece of extra hard steel, and in one high speed operation produces jet tail assemblies without any of the waste usually associated with machining operations. A. O. Smith has had particular success with special forging methods, and a host of other companies are engaged in a healthy competition for evolving the best techniques in forging, casting and cutting these wonder metals.

One particularly interesting process has been devised by North American Aviation engineers. Known as "Chem-Mill", it makes use of highly corrosive chemicals to wear away parts of the metal to attain desired shapes.

But our metallurgical research does not stop here. Designers now envisage aircraft capable of flying at mach 20 (twenty times the speed of sound, or about 15,000 mph)–and speak of temperatures of 15,000 degrees, or 5000 degrees hotter than the surface of the sun. Since even tungsten and molybdenum turn to gas at about 7000 degrees, a separate line of research is concerned with finding techniques for artificially cooling the surface rather than devising metals to resist this fantastic temperature.

To work out problems of this kind, various experimental stations are already in operation around the country. McDonnell Aircraft can simulate speeds of 5,000 mph, enabling engineers to approximate conditions an aircraft would have to contend with at 90,000 feet and temperature of 15,000 degrees. Another installation can simulate a speed of 11,000 mph; and at Cornell University active research is already underway at 10,000 mph and 9,000 degrees.

Certainly this brief metallurgical catalogue should help dispel any notion that the U.S. has been sitting on its hands. True, most of these projects are not part of the missile program *per se*, but by their very nature it can be seen they specifically apply to missiles.

The ICBM

Before discussing additional advanced research, a brief description of ICBMs; the state of their development; and their purposes will be fruitful. Ideally, an ICBM is a gigantic cannon capable of firing a warhead thousands of miles with absolute precision. It would be ready for instantaneous action, with everything present in the firing mechanism to place the projectile in the desired "free falling" trajecory –and on target.

Today's missiles, however, fail in most of these criteria. As a matter of fact, both we, and the Russians are still in the stone-age of missile development. Parenthetically one may properly ask if it is necessary to advance any further along this destructive path, but as thought provoking as the question may be philosophically, the fact remains that so long as the Russians seek an ultimate weapon, we must also.

Undoubtedly, even in their crude state, ICBMs are awesome weapons when armed with thermonuclear warheads. But before they can qualify as "ultimate weapons" they must be inordinately more efficient than they are now. For their accuracy is still in question; they are cumbersome; and there is still no certainty that the warhead can survive as it hurtles back into the earth's incandescent atmosphere.

Some of their crudeness can be measured by the fact that an ICBM is a monstrous device comprised of about 300,000 parts, all of which must work perfectly if the operation, is to succeed. Since no one, no matter how elaborate his testing facilities, can be certain that so many interrelated components will function properly at a given signal, the performance of the weapon is always in doubt.

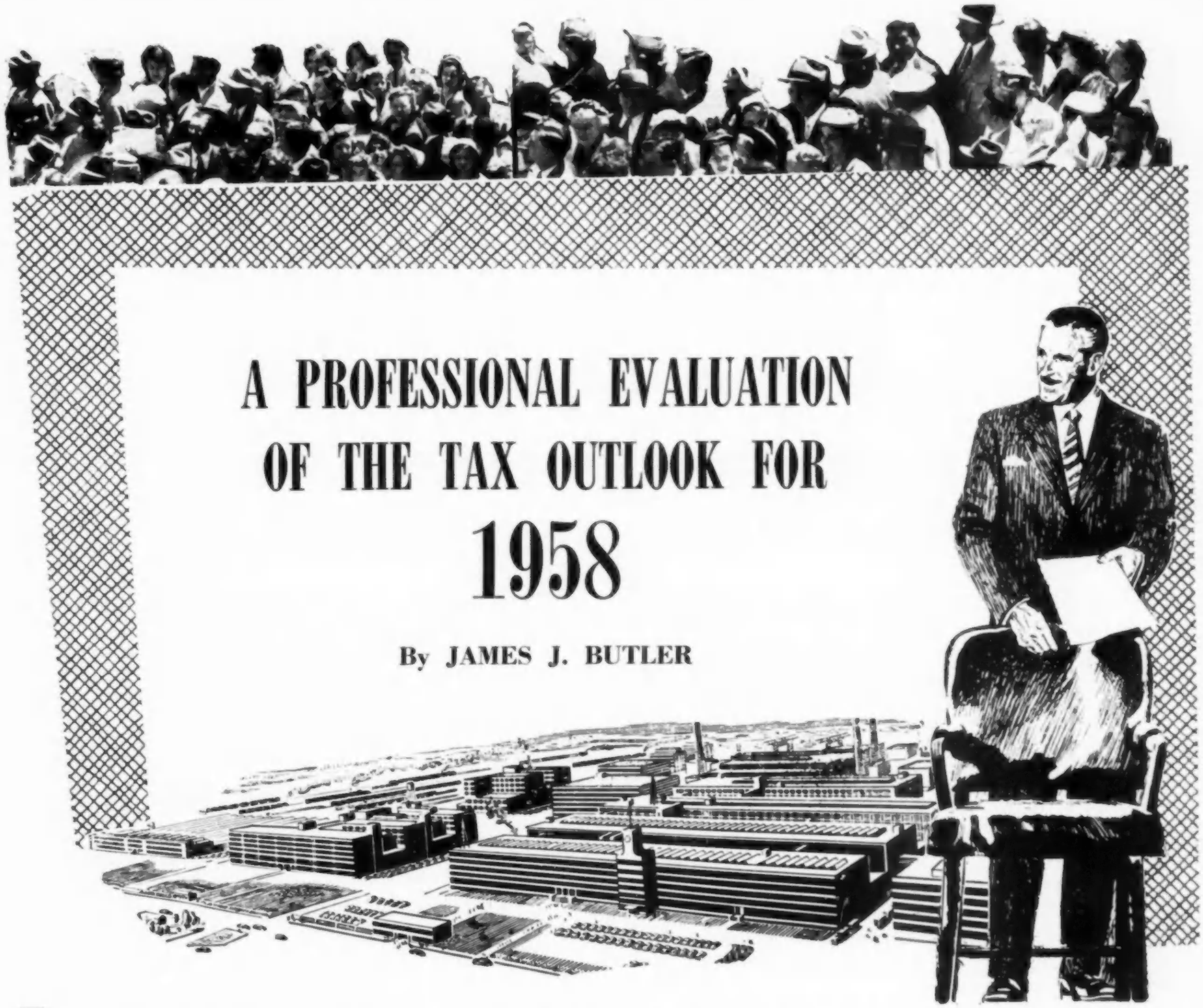
Furthermore, the limitations of their fuel supply prevent the present crop of ICBMs from responding immediately to the call for action. The liquid fuels needed to feed the voracious appetites of the rocket engines are so highly corrosive and subject to rapid evaporation, they cannot be stored in the missiles' fuel tanks. Thus before taking off, hours must be consumed in pumping in the fuel for engines that consume about one ton of the stuff each second.

Where Do We Stand?

The Senate is about to begin its much advertised investigation into our "lagging" missile program, but one already underway by the House of Representatives has produced surprisingly few castigations. Administrative errors have been criticized, and invectives leveled at the evils besetting any bureaucratic structure, but the committee is obviously surprised and impressed with the information it has received. We have no access to privileged data, but just from information already made public, it is apparent that we cannot be far behind the Russians. The Committee may find that we are not behind at all.

From the previous brief description of an ICBM, and its purposes, numerous lines of research and development projects in addition to the metallurgical progress already discussed, are indicated. Scientifically the most important steps have already been taken: we have learned to ask the right questions. All we have to do now is find the answers–and since nature is no more revealing to the Russians than she is to our scientists, the winning of the race will be decided in the realm of industrial know-how. And this is America's greatest hope. It is comforting to consider the example of titanium already cited, and to realize that only a few short years ago jet engines with a thrsut of 10,000 lbs. were a gleam in the eyes of aerodynamics engineers. Today, 15,000 lb. thrust engines roll off our assembly lines as a matter of course.

Moreover, and contrary to popular notion, American industry has not always waited for government funds to score important military gains. Olin-Mathieson developed hydrazine (*Please turn to page* 369)



A PROFESSIONAL EVALUATION OF THE TAX OUTLOOK FOR 1958

By JAMES J. BUTLER

The race with Russia for superiority in the applied science of missilry has, within a space of 90 days, changed the Federal tax outlook radically. When Congress adjourned revision of the Revenue Act was put down as something desirable, not necessarily to be accomplished with haste but rather after full-dress committee hearings which were certain to be tinged heavily with reaches for partisan advantage. And overriding almost all other considerations then was the question how much can Federal taxes be reduced in Fiscal Year 1958, and which party will be in a position to claim the credit.

In a matter of weeks, Congress will be back in session. The idea of tax reduction meanwhile has gone out of the window, trailed by the strategems and devices which were designed to wring the full measure of political values out of a cut. But the subject of tax will not be static, glued to present methods and existing taxables.

The challenge of Moscow will be met in Congress by fundamental readjustments in spending aimed at holding the budget line. If that goal is not attained (and it seems likely not to be), the lawmakers will be faced with the necessity of making a decision whether to raise more Federal revenues by expanding with existing inequities, and widening present loopholes; or, rip the system of Federal Tax apart and make a fresh start.

To the extent that the haphazard structure of Federal taxation is forced into overhaul, the country is in debt to Sputnik. In the past 40 years, Congress has substantially altered the Revenue Act several times, but usually at the height of emergency which demanded construction of new wings without regard to the original architecture, or to balance. World Wars 1 and 2, the Great Depression and the New Deal methods for coping with it, did most of the damage. The Korean war left its mark to a lesser degree. But in each of these instances there was no time to test soundings or under-pinnings—at least, it wasn't done: Congress picked several areas for "wartime" or "emergency" excise taxes, but when the circumstances which justified the levies had passed, the taxes lingered on. And in across-the-board action it jacked up taxes generally, preserving the inequities.

The tax-writing House Ways & Means Committee begins hearings Jan. 7. Within a few days thereafter, President Eisenhower will submit his State of the Union Message forecasting his views on what should be done tax-wise and otherwise. Both the Committee, democrat controlled, and the White

Item	Reduction Scheduled in Rate	Estimated Revenue Effect Full Year (Millions)
Alcohol Taxes		
Distilled Spirits	$10.50 to $9 per gallon	$142
Beer	$9 to $8 per barrel	85
Wine	Various	10
Cigarettes (small)	$4 to $3.50 per $1,000	200
Passenger Cars	10 to 7 percent of manufacturer's price	405
Auto Parts and Accessories	8 to 5 percent of manufacturer's price	58
Total		$900

Federal Excise Taxes Scheduled To Be Reduced On July 1, 1958

House, in republican hands, have been inviting the public to nurture the pleasant thought of tax reductions just ahead. *Now both must own up to the fact that relief is not ahead; in fact higher taxes, or less of the so-called public "service", confronts the country. If the confession is complete, both sides will admit that has been the true outlook right along.*

New Tax Picings Are Slim

Where to find new tax sources is the No. 1 consideration. It has been demonstrated on the basis of Internal Revenue Service figures that confiscation of what's left of the six- and seven-figure annual incomes wouldn't be a drop in the bucket. Corporations now are taxed to the point where any additional burden would write finis to plans for the expansion programs which are essential to the defense program, the civil economy, and maintenance of high gross national product. The national debt is pushing the authorized ceiling; the country cannot go on a borrowing spree and postpone the inevitable accounting.

Weaknesses exist *within* the revenue policy. Congress has railed against "tax loopholes" for years, but has done practically nothing about it. Possibly the spur to do something didn't exist then. It does now!

Before dismantling the Revenue Act and putting it together in new form, Congress must take steps to cut Federal spending, curtail or abandon some of those things which have zoomed taxes to back-breaking weight. President Eisenhower is emphatic on the point that orthodox defense and retaliation must not be weakened beyond the point of safety while the new instruments are being planned and produced. Ike contends the new emergency makes foreign aid more important than ever. The White House cannot be relied on to suggest savings there.

President Eisenhower has not been credited with facility, or disposition, unfailingly to come to grips with major fiscal problems, except to cite them and deal with solutions in generality. A notable exception to this was his second "speech of reassurance." He keynoted: "In the Federal Government's civilian activities, we shall have to make some tough choices." Then he talked turkey to Congress and the Nation, saying:

"Some programs, while desirable, are not absolutely essential. In this I have reached a clear conclusion. While some savings may still be squeezed out through the wringer method, savings of the kind we need can come only through cutting out or deferring entire categories of activity. This will be one of the hardest and most distasteful tasks that the coming session of Congress must face, and pressure groups will wail in anguish.

"By whatever amount savings fail to equal the additional costs of security, our total expenditures must go up. Our people will rightly demand it. They will not sacrifice security worshipping a balanced budget. But we do not forget, either, that over the long term a balanced budget is one indispensable aid in keeping our economy and therefore our total security strong."

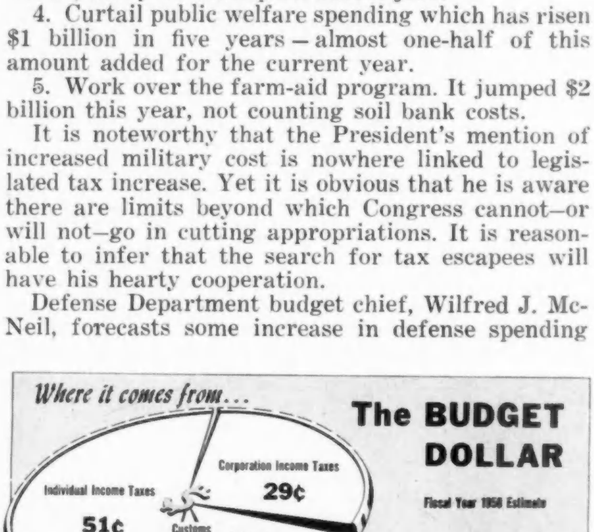
That boils down to this: savings of the most drastic nature aren't enough to keep the budget in balance, and despite curtailment and abandonment, tax income must go up. For, perhaps, the first time since he left the White House, Harry S. Truman expressed total agreement with his successor. He added that the outlook hasn't been otherwise and that recognition of the plain fact was inexcusably delayed.

What President Eisenhower was inferentially suggesting includes these steps by Congress:

1. Follow through with the move that went far in this year's session, to eliminate the $763 million soil bank annual cost.
2. Raise postal rates to wipe out a $700 million operating deficit.
3. Declare a moratorium on new rivers and harbor projects, except repairs, maintenance and dredging, and cut deeply into the $3.7 billion fund for those works, many of them pork-barrel jobs.
4. Curtail public welfare spending which has risen $1 billion in five years – almost one-half of this amount added for the current year.
5. Work over the farm-aid program. It jumped $2 billion this year, not counting soil bank costs.

It is noteworthy that the President's mention of increased military cost is nowhere linked to legislated tax increase. Yet it is obvious that he is aware there are limits beyond which Congress cannot–or will not–go in cutting appropriations. It is reasonable to infer that the search for tax escapees will have his hearty cooperation.

Defense Department budget chief, Wilfred J. McNeil, forecasts some increase in defense spending



Executive Office of the President • Bureau of the Budget

but not a great budget increase. Said McNeil: "The President has not lost sight of defense needs of the country, but he has not lost sight of the fiscal problem either, and the need for maintaining some balance between income and outgo."

Before previewing tax revision prospects for next year, it is advisable to keep in mind the President's speeches and those — such as McNeil's — which are manifestly attuned to the theme of readjustment more than increased revenues. But it isn't going to be possible to convince Congress it should abandon pet programs in an election year; nor is it going to be possible to persuade the President that foreign aid reduction should contribute. Whats' left is new, or additional, taxes. That means review of the whole subject by Congress.

Tax Bills Are Legion

Hundreds of bills aimed at tax reduction, tax increase, or shifting the burdens more equitably are pending before Congress. Minor modifications of similar basic ideas account for the multiplicity; actually the plans are few. The propositions which seem to have serious backing–some of them bipartisan support, appear in the accompanying table.

Our Tax System Is Antiquated And Inequitable

The history and purpose of taxation has been blurred by the demanding maw of Big Government. Basically, we have not moved far away from the policy of Louis XIV's theory of taxation as "the art of plucking the goose in such a way as to produce the largest amount of feathers with the least possible squawking." In the long run, every citizen pays. But the objective should be to gather the tax revenue without damaging the vitality and prospect of the country's economy. The goose must not be so harrassed with plucking that it has no opportunity to develop new resurces, in greater abundance, increasing the yield. The same holds true of taxed individuals and enterprises.

The "system" used today, if it may be dignified by that term, is based on inadequate policies and procedures. The Federal tax structure has undergone a series of revolutions since the advent of World War 2. These have not reappraised or dovetailed into a sound pattern of tax structure and rates. The discriminatory wartime excises present an example. No time has been taken for reappraisal: Congress has followed a policy of spending all tax revenues generated by economic growth, instead of economizing in running the government and giving the taxpayer the opportunity to have a say in spending his own money.

Real economies are not brought about by quibbling over budgetary trifles. What is needed is discriminating analysis and appraisal of all of the Federal program. The Nation has been bemused by "balanced budgets" that conceal the constant rise in cost and fail to take note of the narrowing space between wages and operating profits on the one hand, and the Treasury's demand on the other. A balanced budget is no guarantee that spending will not be excessive. It isn't even proof of efficient operation of the government. As long as there is a dollar of revenue over expenditure, tax reduction and realignment to remove inequities and loopholes seem likely to be postponed. The day of reckoning now is at hand.

The job ahead for Congress is to stand off and view the federal tax system as a whole, measure it

Major Tax Issues for New Session of Congress

Capital gains tax: This is a very light producer since it is applicable only to a limited number of situations involving profit-making sales by investors. The rates run as high as 25 per cent. The objective is a reduction to 15 per cent. Argument against this tax is that it discourages investors from selling, consequently keeps them out of the buyers market. It has been described as a penalty on personal enterprise. If backers are able to convince Congress that there would be little or no revenue loss (increased trading would keep up the slack, they say), this reform might well clear Congress next year.

Dividends: Elimination of double-taxation is sought here. Under existing practice, corporate earnings are taxed in the hands of the company and again when they reach shareholders in the form of dividends. Industrial expansion depends on the availability of part of earnings to foot the bill, but when the dividend dollar is placed in double jeopardy it's demise as an instrument of industrial growth is hastened. Advanced in support of substantially cutting the tax on dividend income is the argument that an invested dollar produces its own equivalent in national output in four years, thereby providing a new tax revenue source.

Excise tax: There is no rhyme or reason behind the present Congressional attitude toward excises. Most of those extant had their beginning as war taxes or emergency taxes. The justification has gone but the levy lingers on. Congress has lowered amusements ticket taxes twice in the past few years and may eliminate the provision from the Revenue Act this year. It was demonstrated that the cost of administration and collection, plus the funneling off of profits to be otherwise taxed, made the whole thing uneconomic. In this area lies the possibility of a new tax form: at the manufacturers level, using a standard rate of excise on everything not specifically exempted—medicines, food for home consumption and the like. Liquor, tobacco, gasoline, automobiles and accessories, would continue to be the heavy contributors.

Individual income tax: Hundreds of pending bills deal with this subject alone. If any clears the next session, it will be a token, spread over millions of persons in the 20 per cent-or-lower bracket. The Federal Government collects about 50 per cent of its revenues in the form of income tax, yet only $5 billion is realized from the above-20 per cent bracket, already hit as hard as Congress is likely to dare go. Capitol Hill will turn heaven and earth before jacking *up* the personal income rates.

Estate taxes: This is an area which produces relatively little revenue but has been known to tie up an estate to the point of crippling it. Uncle Sam demands his tax on the barrel-head—no delay. Result has been in some notable cases that closely-held corporations have had to refinance at terrific cost, sell out, or enter into business alliances which have destroyed the character of the entity that built the corpus. This tax takes money out of the investment and expansion market.

against standards of fairness and determine whether it meets the justification for its existence: distribution of the burdens and benefits equitably. Tracing the growth of the system, the Congressmen will find, for example, that the corporation tax which produces about 25 per cent of Treasury revenues has skyrocketed: rates in the 1920's ranged from 10 to 13½ per cent; after the Korean War broke, the maximum zoomed to 52 per cent and there it stands! Who pays the tax ultimately is not important to present considerations, but what effect it has on the national economy is important. Tax problems top most others in the operation of a business today. Equity financing is thrown out of kilter and the first signs of recession send companies to the storm cellars of retrenchment. The impact on wages and other factors of the business world is immediately felt.

Unintended Benefits and Hardships to Receive Close Attention

As a practical proposition it is futile to expect the Congress of the United States to extend tax relief to corporations without giving comparable benefits to individuals—the largest producer of Federal revenues. But the income tax system is pocked with special provisions and exemptions, each superimposed upon the original structure without considering the effect of the new on the old. The full calendar of the U.S. Tax Court reflects the results: tax avoidance. This is to be expected when it is remembered that there is a range of 20 per cent to 91 per cent in the "cut" the Treasury takes from an individual's income.

Rep. Jere Cooper, chairman of the ways & means committee, has promised Revenue Act review and, where necessary, revision "from the ground up," but actually, the Cooper Committee hearings will be a step, not a start. The start was made by a subcommittee under the chairmanship of Rep. Aime Forand. Its work resulted in proposed revision of 81 sections of the Revenue Act, most of them intended to correct inadvertent errors of draftsmanship, but there are significant changes which the next session of Congress will be asked to make, dealing with "unintended benefits" and "unintended hardships." The survey is continuing with subcommittees and staffs working out changes in tax treatment of corporation distributions and adjustments, estates and trusts, and partners and partnerships.

Some of the more important "unintended benefits" which the bill (H.R. 8381) would remove are: Special benefits derived by holding various types of stock for only short periods around dividend dates; the double benefit from gifts in trust to charity where remainders go to closely related persons; double interest and charitable deductions with respect to the same amounts; the special advantages from writing bond premiums over relatively short periods of time when the bonds have early call dates; advantages derived by part-time employees of exempt corporations from deferring tax on their salaries by taking it in the form of annuity contracts; improper definition of "dependent" when the relationship is illegal; conversion of ordinary income into capital gain income by purchasing bonds with coupons attached; the estate tax treatment accorded life insurance policies transferred before death.

On the other hand, the bill also contains a substantial number of provisions which will benefit taxpayers. These include the right to deduct as taxes amounts paid for municipal services in atomic energy communities; revision of the prohibited transaction provisions as they relate to debentures of employer corporations held by pension funds; reconciling of provisions of the code with respect to fiscal year taxpayers in transition years from the 1939 to the 1954 Code; restoration of any rights taxpayers had under the 1939 Code with respect to the definitions of mineral property; extension of the period of time for taking credit for State death taxes where the liability under estate tax is in dispute; extension of the application of the pre-1952 rule in certain cases to prevent the pyramiding of taxes where lessees are reqiured to pay the lessors taxes

The Forand Committee doesn't expect the revisions to bring in substantial new amounts of tax (it will result in reductions in some areas). "They are," Chairman Forand said, "much more significant from the standpoint of preventing the growth of the use of avoidance (loop-hole) devices which might in the future result in substantial revenue losses."

Rep. Noah Mason of Illinois, veteran tax expert on the ways & means committee, is readying a crusade to expand the special committee report. He protested: "Certainly a bill with this title ("To correct unintended benefits and hardships") should correct and remove the most glaring inequity and close the biggest loophole to be found in the entire Revenue Code, namely, those provisions which permit cooperatives, mutual savings banks, building and loan associations, credit unions, etc. to operate in direct competition with taxpaying businesses without paying Federal taxes.

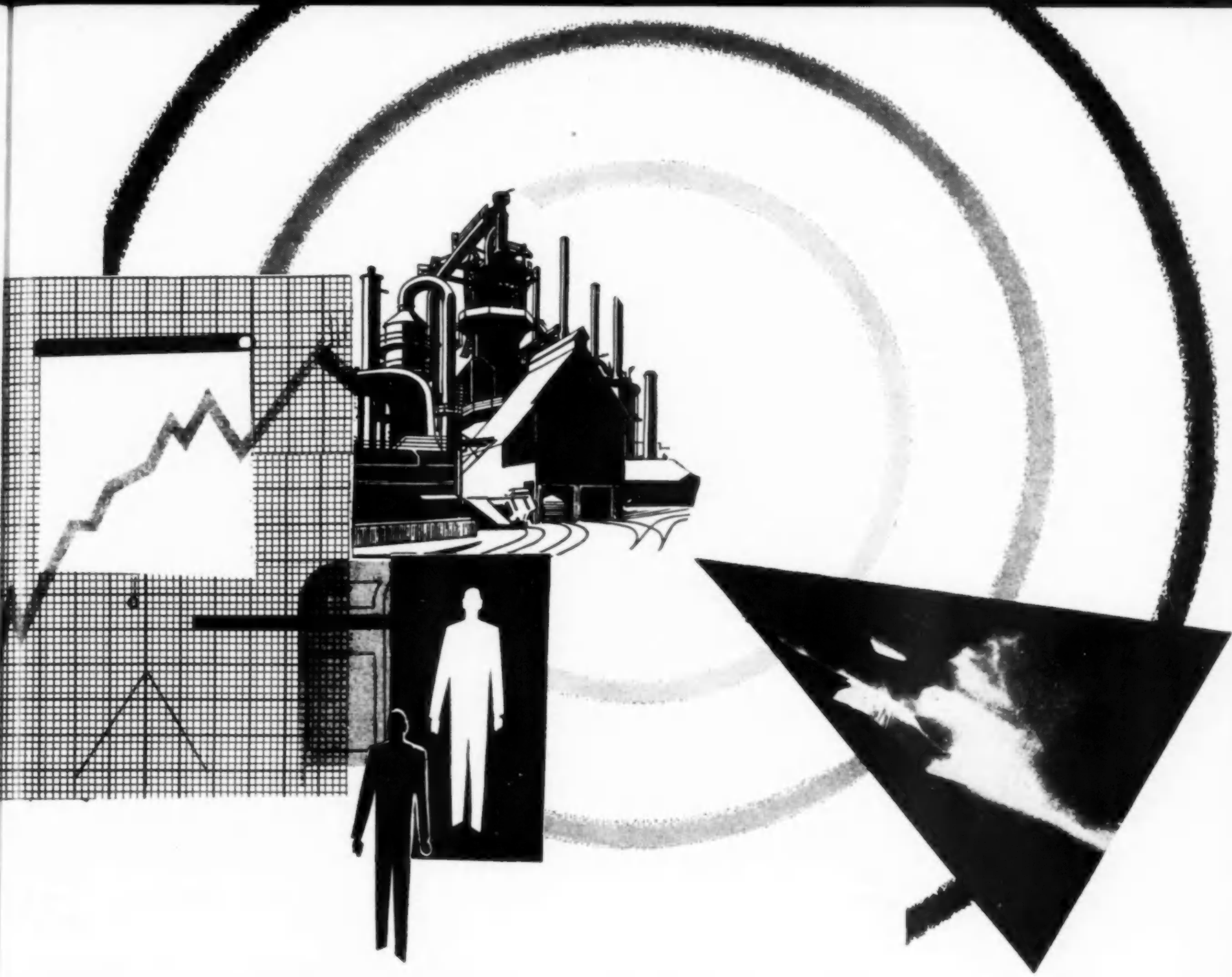
"These provisions constitute the greatest inequity to be found in the entire Federal Code. They provide loopholes through which more than $1 billion a year in legitimate taxes escape the Federal tax collector."

Outlook For New Revenue Sources

When the Joint Committee on the Economic Report was conducting hearings, Harry J. Rudick pleaded for tax relief by offering this set of paradoxes: "I see no persuasive reason for preferring taxpayers whose brain children consist of patentable ideas over taxpayers whose minds produce unpatentable ideas. Nor do I see any good reason for preferred tax treatment for people whose income stems from property as distinguished from those whose income stems from personal effort. By and large, taxpayers who inherit or are given property fare better under the present tax than those who earn it."

This led to discussion of depletion allowances—a field that is certain to be widely explored in the new Congress. It has been in the past. The results next year will be the same as before and the answer is simple: There is long-established precedent for the present practices, and there are many states with oil, gas, and other mineral deposits. This adds up to negative votes on anything that would curb depletion allowances.

Several years ago, Congress attempted to meet the rising complaint of preferential treatment for married couples in some states setting up a general joint return with split income (*Please turn to page* 371)



THE CURRENT RECESSION...

Comparing the Various Stages of the Boom — 1948-49 . . . 1953-54 . . . and 1957-58

By Michael Stephen

The Federal Reserve's reversal of its tight money policy, reflected in the November 15 cut in discount rate, calls for some critical second thoughts about the current business situation. Too many people are interpreting the Federal Reserve action bullishly. The stock market, in particular, needs to realize that tight money is not synonymous with all that was wrong with the market before November 15. Sentiment in the market seems to be taking on a disquietingly exuberant tone again, on the theory that with money easier the worst has been seen. But if a serious business downturn lies ahead, and there are signs that point that way, over-optimism now could bring painful corrections later.

It is worthwhile to ponder the Federal Reserve Board's sudden reversal of its policy of credit restraint. For it was a sudden reversal. That the action was precipitate is indicated by the fact that open market operations had not prepared the way. In the week just before the discount rate cut, the Federal Reserve not only had not bought any government securities (which eases the money market) but actually sold securities to maintain pressure on bank reserve positions.

It is no wonder that a spokesman for the Chase Manhattan Bank was "surprised at the news." After all, high Reserve officials recently had been taking the line that it would be a serious error to ease money too soon, even if the price of delay was some downward adjustment in business activity. Alfred Hayes, President of the Federal Reserve Bank of New York, in a significant speech October 16 said:

"I hope you agree that it would be a great mistake to relax credit restraint just as we see some hope of achieving the price stability that we have

all sought so ardently. The moderate excess capacities that have appeared in several industries, no doubt at least partly as a result of the recent vast capital expenditures, are the best ally we could have in seeking this goal. They should permit the normal forces of competition to become increasingly effective and to put a check to further price increases. Profits may be squeezed somewhat in the process, but ultimately such a sequence of events should not be without a restraining effect on further wage boosts that cannot be absorbed through increases in productivity.

. . . while we may not have succeeded fully in checking inflation, we seem to be achieving at least partial success. There are growing signs of public awareness of the inflation threat and encouraging signs of disbelief on the part of the public in the theory that creeping inflation is either desirable or inevitable."

Only a week before the discount rate cut, Reserve Board Chairman Martin was still asserting that inflation was the main threat.

The Federal Reserve Board, and particularly Chairman Martin, are stubborn men, as they showed in the past three years by persistently sticking to their anti-inflationary guns in the face of open opposition from high Administration officials. That they now should precipitately reverse a position so firmly held is disquieting. The whole episode raises the question of whether the business outlook is not more bearish than people generally realize.

The Prevalence of Optimism

It has become commonplace to assume that serious business recessions are a thing of the past. Recent comments on the business trend are cases in point. President Eisenhower has described the current recessionary movement as "a breather." Commerce Secretary Sinclair Weeks calls it "a mild, rolling readjustment." Former Treasury Secretary George M. Humphrey goes a step further and says that "our adjustment" is "healthy and proper for the economy" and is "on the way toward being accomplished." S. Clark Beise, president of the Bank of America, the largest bank in the world, says: "We're in the latter stages of the rolling readjustment," and adds, "when the end of 1958 comes, we'll look back and call it a good business year."

This optimism contrasts sharply with the mood of the early postwar years when businessmen were continually apprehensive that a postwar slump on the pattern of 1920-21 was just around the corner. The change in sentiment is not hard to explain. It stems from the very favorable experience we had in the 1949 and 1954 business recessions. The question is whether we can safely count on all other business setbacks to be that mild?

The 1949 Record

When business softened in late 1948 no one knew what was ahead, though a good many nervous people thought they could imagine. A year later, business was in a more favorable position than would have been thought possible in the pessimistic atmosphere of the spring of 1949. As the table herewith shows, at the July 1949 bottom of the recession the Federal Reserve's index of industrial production was only 10.5% below its November 1948 peak. Gross national product fell only 4.3% from the late 1948 peak to the fourth quarter 1949 low.

Essentially, the recession reflected a sharp curtailment of business buying, reduction of inventories and shortening of commitments. Total business inventories fell 6.5% from November 1948 to December 1949, while manufacturers' new orders declined 16.8%. At the same time the annual rate of business spending on new plant and equipment dropped $4.6 billion or 20.5% from the first quarter 1948 peak to a fourth quarter 1949 low.

What took up the slack was the tremendous appetite of the American public, still satisfying accumulated wartime demands, for automobiles, other consumer durable goods, and new homes. With still high accumulations of liquid assets, with credit easily available in the era of cheap money, and with the help of the 1948 tax reductions, consumers were able to finance their acquisitions of these items, hold the economy on a relatively even keel and eventually stimulate restocking of inventory by business. Thus, despite the sharp temporary dip indicated in the table, new housing starts totaled 1,024,000 in 1949 against 931,000 in 1948. The rise in consumer debt was not even interrupted by the recession; the slight decline indicated in the table reflects a less than normal pay-off of Christmas charge accounts.

Meanwhile, business was able to maintain exports to Europe, where, despite the British currency troubles, production continued to surge ahead as Marshall plan aid helped the European economy make up for World War II destruction.

The 1954 Recession

Five years later, at the close of 1953, there was somewhat less apprehension than in 1948 as signs of business weakening became apparent. Nevertheless there was still a wide audience of apprehensive listeners for Australian economist Colin Clark's prediction of a downward spiral "which goes on and on of its own accord until the economy has fallen to an extremely low level."

Again, the experience was more favorable than even the most sanguine had hoped.

At its August 1954 low, the Federal Reserve's index of industrial production was only 10.2% below its 137 May, 1953 peak. The annual rate of gross national production never declined below $357.5 billion, down only 2.7% from its peak in the second quarter of 1953.

As in 1949, the recessionary movement reflected business inventory correction, but this time aggravated by cutbacks in federal government ordering and spending as the Eisenhower ecnomy drive got underway. As the table shows, total business inventories fell $4.4 billion or 5.5% from September 1953 to October 1954. Manufacturers' new orders declined 16.2%. The annual rate of business plant and equipment spending dropped 10.8% to a low of $25.7 billion in the first quarter of 1955.

This time, too, the buying appetite of the American public was the great supprting factor, stimulated by $7.4 billion tax cuts in 1954, easy money and lengthened credit terms, and further use of

liquid asset accumulations. This time auto output dipped a little more than it had in 1948-49, reflecting the fact that the backlog of accumulated wartime demand had been pretty well used up, but rebounded to unprecedented levels in 1955 under the spur of cheap credit and no down payments. Meanwhile passage of the Housing Act of 1954 plus extremely easy conditions in the market for mortgage money produced a fantastic bulge in housing construction; the annual rate of new home starts zoomed up beyond 1.4 million in December 1954.

Abroad, foreigners were adding to their gold and dollar reserves at a rapid pace, providing receptive markets for American exports.

All of these factors made the 1954 recession one of the mildest on record. The fact that it followed the minor recession of 1949 convinced some people that the U.S. economy is now depression proof.

The Situation Today

Economists make confident predictions of where the economy will be in 1975 or 2000. A whole theory of stock market value gets based on considerations of growth developing out of these forecasts. Yet, one of the hardest things for any economist to do is to measure where we are right now.

That a recession is underway is clear enough. How long it has been underway is not definitely shown by the various economic indicators. They point in different directions—but, as a matter of pure common sense reasoning, a down-turn was visible as early as mid-1955, when sales began to flatten out and the hypodermics of enormous discounts and long-term easy credit running as much as 36 months, took up the slack and cut into and poached on the potential 1956 sales market.

In a country as rich as ours, the beginning of a decline is almost imperceptible, because all industries are not affected simultaneously, and therefore the process of deterioration is gradual.

Thus it is that the sag in business confidence has only come recently, dating back no farther than Labor Day. The gross national product in real terms may be still rising, though it is more probable that when all the revisions have been made by the statisticians the peak will be put in the second or third quarter of 1957. The Federal Reserve Board's index of industrial production made its peak as far back as December 1956.

Thus, comparing the course of the current recession with the '49 and '54 experience is tenuous, now. Nevertheless, it is worthwhile doing. So far, industrial production is down only 3.4% from the December '56 peak, against a decline of 10% for the whole of the 1949 and 1954 recessions. Meanwhile, through September, business inventories were still rising, though the accumulation has slowed and recently, in part at least, has been involuntary. Compared with 1953--54 and 1948-49 the turn in inventories has lagged unusually long behind the turn in industrial production. The fact that industrial production has been declining since last December despite inventory accumulation suggests that other segments of the business picture are weaker than in '48-49 or '53-54.

One area of greater weakness is manufacturers' new orders, which have already fallen 14% from their August 1956 peak. In '48-49 and '53-54 manufacturers' new orders did not decline more than 16.8% in the whole of either recession. With the rate of shipments running higher than new orders booked, order backlogs have dropped to the lowest levels since November 1955. Keeping up the level of current production by running down order backlogs is something that, of course, cannot go on indefinitely. Either production is cut back, or the order backlog runs out.

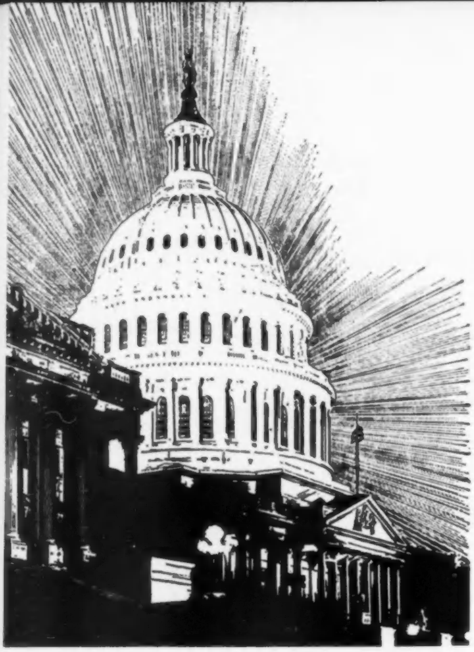
The weakness in orders reflects the topping out of the great capital boom. New plant and equipment spending will probably total a record $37 billion in 1957. But the outlook is for considerably less in 1958. Overcapacity in almost every industry—not excepting those that are touted as growth industries in the board rooms—has led to the deferral or cancellation of a number of expansion plans. Companies like Aluminium of Canada have put off big projects for awhile; others like Seiberling Rubber are completing expansion projects but feel that they are set for the foreseeable future. It all adds up to several years in which the economy will not have the upward thrust of rising capital spending.

An independent survey of projected business capital spending in 1958 indicates that it will average about 7% below 1957. On the SEC basis this would be about $34.4 billion in '58 against $37 billion this year. *But since we are now at a $37.2 billion peak quarterly rate, an average of $34.4 billion in 1958 means that at some point, presumably towards the end of the year, the annual rate of spending could dip down to around $31½ billion.* This would be a 15% decline from the current peak rate, against declines of 20.5% and 10.8% in all of the '48-49 and '53-54 recessions, respectively.

The trouble is that these plans are *only* plans. They can, and probably will be cut back even further if business weakens in 1958 as expected. In 1957 the initial estimate of *(Please turn to page* 371)

Business Indicators in 1948-49 and 1953-54
(Dollar figures in billions)

	'48 Peak	'49 Low	% Chg.	'53 Peak	Low '54	% Chg.
FRB index (adj.)	105	94	— 10.5	137	123	— 10.2
GNP, $ bil. (adj.)	267.0	255.5	— 4.3	367.4	357.5	— 2.7
Business inventories, $ bil. (adj.)	55.7	52.1	— 6.5	79.6	75.2	— 5.5
New plant & equipment, $ bil. (adj.)	22.4	17.8	— 20.5	28.8	25.7	— 10.8
Manufacturers' sales, $ bil. (adj.)	18.8	15.6	— 13.3	25.9	23.1	— '0.8
Manufacturers' new orders, $ bil. (adj.)	18.4	15.3	— 16.8	24.7	20.7	— 16.2
Retail sales, $ bil. (adj.)	11.1	10.2	— 8.1	14.4	13.5	— 6.3
Housing starts, annual rate in 000 (adj.)	1,019	796	— 21.8	1,134	1,044	— 7.9
U. S. exports, annual, $ bil.	12.6	12.0	— 4.8	15.8	15.1	— 4.4
Per cent labor unemployed	2.7	6.4		1.9	5.8	
Consumer debt, $ bil.	13.8	13.6		31.2	29.3	



Inside Washington

By "VERITAS"

SURPRISE that the President of the United States would propose a buyer's strike as an anti-inflationary device is matched by the circumstance that Ike has done nothing to "explain" or soften the impact of his off-the-cuff press conference statement. Newsmen were certain he didn't mean exactly what he said and thought he would be quick to recognize that his suggestion would invite immediate recession in the retail and appliance lines, to name two most likely to be hit first. Merchants stocked with Christmas merchandise held their breath for 10 days, until it became evident shoppers were paying no heed to the advice.

WASHINGTON SEES:

The prospect that the United States may find itself eased into a closer economic union with Canada, Mexico, and Latin America, becomes more probable as business federations of European Nations speed to realization. Western Europe and the Scandinavian Countries are well along with common market plans, creating trade entities that cannot be lightly dismissed.

The European Common Market in its formative years already combines Belgium, the Netherlands, Luxembourg, France, West Germany, and Italy—joined together to eradicate customs barriers, quotas and other impediments to creation of a giant mass-production economy. Very recently 17 member nations of the Organization for European Economic Cooperation agreed to negotiate for a European free trade zone. Great Britain indicates she wants in also.

And to the north, Norway, Denmark, Sweden and Finland are perfecting plans for a free trade zone which has an added interest: a joint investment bank which will seek to bring foreign capital into the area. An important sidelight to this union is the membership of Finland, already closely tied trade-wise to its next-door neighbor, Russia.

Ties among Nations of the Western Hemisphere have been strengthened in recent years, especially during and since World War 2. There still is time. The European Common Market has more than 12 years to go on the 15-year organizational job it set out to do.

CONSTRUCTION of segments of the national highway system will be slowed to keep the costs within safe bounds. Although the 40,000 mile crisscross of the Nation was planned only one year ago and the cost placed at about $25 billion, it already is becoming obvious that rising costs of labor, material, and rights-of-way have placed about 50 per cent of the original plan beyond the reach of that amount. This calls for overhaul and a new scheduling. The alternatives are more money or less highway and the answer already is in: less highway, at least for the immediate future. Congress will get a report early in January. It will be an eye-opener.

BIG BUSINESS is counselling Big Labor not to fight inclusion of union operations within the coverage of the antitrust laws. This is advice based on experience. Said President Philip M. Talbott of the U.S. Chamber of Commerce: "Labor would find itself better off. Some of our people raised a frightful outcry when the law went into effect. But as the decades marched along, we discovered that the laws were not so bad. We could still grow and prosper, and even more importantly, we found we had a set of ground rules which were based on the rights of free competition." So far, no comment from Meany, Reuther, Carey, et al. Naturally, none from Hoffa.

IMPORTERS of oil have been warned by the Administrator of voluntary control, Navy Captain M. V. Carson, Jr., that they're flirting with the danger of mandatory control. If it comes, he warns, price control will not be far behind, inviting rationing as a normal chain reaction.

As We Go To Press

At the height of his indulgence in self-adulation on the 40th anniversary of the Bolshevik revolution, Nikita Khrushchev departed from text and told the truth: Russia, he said, has an ambitious economic program which, if all goes well, will surpass United States present production -- by 1972. It wasn't a slip. The commie party boss went on to concede that the Soviet still is a long way behind this country in certain respects. Steel for example. Russia's output is about 48 million tons a year; ours is more than 100 million. Nikita didn't stress for the guidance of his subjects the fact that such a spread isn't narrowed by the simple march of time. Into it must go an expansion program that means money and concentration -- and deprivation. If the goal is reached its success will ome out of the remaining comforts of Russian life -- if any remain.

What wasn't pointed out in Red Square is the fact that United States production is on the increase, maintaining the spread, if not enlarging it. By setting a 15-year term to even matters up, the CP chieftain realizes his country must move ahead, industrially, at a more rapid rate than the United States maintains. But he also promised that light industry's needs for materials will be met "within five to seven years." And Nikita indicates he'll be satisfied if the Soviet steel output 15 years from now overtakes current total American production -- the 1957 tonnage. Russia's population increases about 3 million persons annually. Housing is one of the problems, and there are many related ones. In their hour of triumph over outer space, the Muscovites were being told, in effect, that the inner man must wait.

More than 1000 business and industry executives gathered here Nov. 13 to be told their specialized services will be necessary if national emergency recurs. They were told, too, that the next Congress will be asked to enact standby controls -- prices, wages, manpower, and materials. They were assured their patriotism is a credit to the free enterprise system and were thanked, in advance, for the services they may be called upon to give. But they weren't told that the willingness of businessmen to serve their government is soon to be given the acid test. When Congress re-convenes, President Eisenhower will ask the Senate to confirm his appointment of Paul D. Foote to be Assistant Secretary of Defense for Research and Development. In this nomination is the makings of a knock-down fight on conflict-of-interest regulations.

In an election year it would be a risk for the Republican Administration to ask Congress to take a more reasonable view of interest conflict. But prediction is that Ike will make the fight, risk criticism of "turning the Government over to big business." The President has had difficulty inducing competent, experienced businessmen to come to Washington. So, too, have his predecessors. The issue which will be faced several weeks hence was pointed up more than four years ago when the Senate Armed Services Committee required Charles E. Wilson to dispose of his General Motors stock before becoming Secretary of Defense. Foote has large holdings in the oil industry. He will stand his ground, refuse to sell out. He is serving under a recess appointment which means his nomination must go to Capitol Hill on the opening day of the new session. There is no present indication the Congress will ease its "conflict" requirement. If it doesn't, Foote will go. A suitable successor may not be easy to find. The business community is fed up!

The political gods continue to smile down on Richard Milhous Nixon. For the time being, he has been saved the necessity for declaring between Gov. Goody Knight and his "closed shop" platform on the one hand, and Senator William R. Knowland and his right-to-work stand, on the other hand. Nixon engineered Knight's somewhat clumsy departure from the gubernatorial

contest which would have pitted him against Knowland and required the Vice President to embrace one, reject the other. It seems likely that Knight will receive the nomination for U.S. Senator and that Knowland will head the state ticket. If Nixon's compromise develops a winning ticket, none will deny him the credit. If it's a losing ticket, well, it definitely eliminates one, or, maybe two, potential rivals for the GOP Presidential nomination. No matter how you look at it, Nixon comes out ahead.

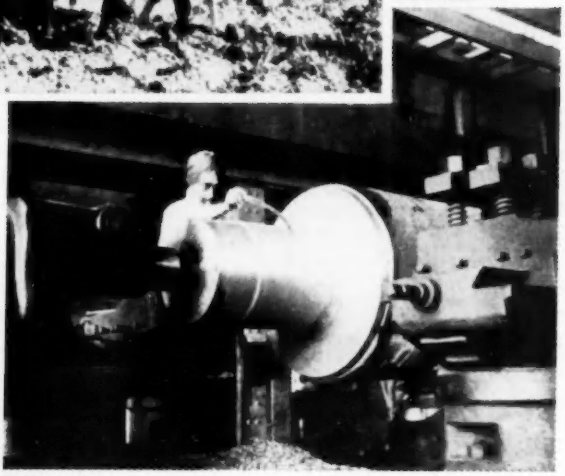
▶ Some late figures compiled by the Department of Commerce point up the foreign car "invasion" sharply. In 1956, Americans bought 107,725 foreign built automobiles, total value $126 million. Of these, 36,503 were British. Germany, which in 1946 sold one car in the United States, built the total 10 years later to 106,362, with dollar value of $182 million. Auto makers in the United Kingdom and Western Europe are answering America's demands: small cars, low cost, economy of operation -- and ease of parking! This is the type of car Europeans have been building for years. It required few changes for the American market. The response surprised even the manufacturers.

▶ Interesting competitive situations have developed during this amazing growth of an industry. Back in 1946 car manufacturers in the United Kingdom had the American market for foreign cars virtually to themselves. That situation continued until about the end of 1954. In that year imports of German built cars in America came to 8,210. But in the very next year the Germans sold us 34,484 automobiles, while imports from the United Kingdom amounted to 20,633. The British industry re-surveyed the market here and made some changes which produced results. For the first eight months of this year, only 2,539 more cars from Germany have been imported than have from the United Kingdom. And dollar-wise the value of the British imports is roughly $10 million greater than the German. Equally interesting is the story of Swedish-built cars: a trickle began in 1955; in the first 8 months of this year, 6,692 automobiles. In fact, demand for small cars is so great that American manufacturers are introducing models of their foreign subsidiaries, for sale here.

▶ An idea of how secretly kept was the plan to ease the bank re-discount rate may be gathered from the fact that the U.S. Chamber of Commerce mailed its "Washington Report" to subscribers a few hours before the Federal Reserve Board. The Chamber was caught off guard, encouraged by the lack of knowledge to the contrary to say: "The slowdown of the rise in living costs is a highly encouraging indication that the Federal Reserve's anti-inflation policies are succeeding. The likelihood of a business readjustment period emphasizes the need for caution in easing credit restraints. A swing in public policy to 'easy' money would inevitably release further inflationary forces. We still face the long-term danger of rapid growth without capital formation -- real savings -- which alone can sustain growth. You can't build on a credit bubble."

▶ President Eisenhower's comment that the swing to missiles must not overlook the essentiality of maintaining existing defensive power, was prompted by the fact that the military services already had been pushed into considerable curtailment. The next Congress won't find nearly as much to cut as was the case this year. The legislators wrote a prescription for the Pentagon but the military men switched the medicines. The Congressmen suggested some of the duplication in the Army's seven technical services would be ended and savings effected. But the Army elected instead to deactivate its First Armored Division -- a substitute economy.

▶ Capitol Hill can't legislate in an appropriation bill, but the debate clearly reflected a hope (and expectation) that the Air Force would curtail some of the activities of the Military Air Transport Service. Instead, AF cut a wing out of the Strategic Air Command. The Navy paid no attention to Congressional suggestion for using civilian contract schools for primary pilot training. This would save $7 million and would free about 2000 officers and men for other duties. Instead, the Navy deactivated two squadrons patrolling the Distant Early Warning line. Pentagon politics is detected: when demands for less spending must be satisfied, cut where it will hurt the most and where the demands for fund restoration will be loudest.



▸ *It was President Roosevelt who once described a liberal as an individual with both feet planted in mid-air—and we feel that India is in that position—because liberalism has always been the first step toward communism.*

A. W. Zanzi

India ...with both feet planted in mid-air

Jawaharlal Nehru is a man in a hurry. As India's Prime Minister he has shouldered the grave responsibility of wrenching one of the world's oldest civilizations from its feudalistic mold and shaping it into a dynamic, modern industrial economy. And he is in a hurry because he has chosen to telescope the process, which extended over several centuries in the West, into a few brief decades of economic catching-up.

To say that he has "chosen" to thrust India into the future by skipping the present is somewhat misleading. For it implies a quality of willful decision inspired, perhaps, by overreaching ambition. The impelling motive, rather, is to be found in the postwar awakening of the people of India, in their massive clamor for economic improvement and in their impatience to secure something better than a subsistence level of existence. More concretely, this new-born zeal and irresistible pressure for social and economic change has its roots in an abysmal poverty which is unrivalled almost anywhere else in the world.

Per capita income in India today is less than $50 per year. And this after five years of intensive industrial effort and sacrifice which yielded a 10% gain in personal income despite the rapid multiplication of India's population during that time (1950 to 1956). In simpler but perhaps more galvanizing terms this means that millions of Indians live in such grinding poverty that they live on starvation's edge every day of their lives. Others, less fortunate, cross that border daily. It means that most people in India have never seen a doctor, and that they have had so little opportunity for schooling that more than 80% are illiterate. But above all it suggests that the Government and people of India believe that anything different would be better than what they have, and that they are determined to get it . . . cost what it may, economically or politically.

India's "Exploding" Population

The urgency and seriousness of the problem is underscored by the fact that India, like many other nations, is experiencing the most violent population explosion in its history. The United Nations has estimated that at the recent rate of growth India will have a population well in excess of 400 million by 1960 and that the total could climb to between 550 million and 600 million by 1980. The economic, social and political consequences of this trend are profound and manyfold.

In the economic sphere, India's proliferation will require a gargantuan expansion of agricultural output merely to feed the new mouths. Agricultural and industrial employment opportunities must be multi-

plied if the ranks of the unemployed are not to swell above today's 6 million, not to mention the many millions who have only part-time employment and eke a meagre living from a reluctant soil. Among these are some 100 million landless workers whose economic plight stirs violent political passions and generates a strong impulse to upset existing property rights and to change the whole fabric of social relations. The most worrisome aspect of this population surge is that the failure to at least match it with a proportionate gain in national income will give new zest to popular resentments; it will heighten the sense of frustration and helplessness and it will encourage more people to favor the Communist "shortcut" to economic progress.

India's Five-Year Plans

India's answer to the crippling legacy of the past and the menacing perils of the future is contained in two Five-Year-Plans designed to mobilize the nation's every resource and bend every back to the task of lifting the tenor of life to a more acceptable if not generous level. The governing philosophy behind these plans is that the process of industrial development, basic to India's economic emancipation, can be compressed into a tolerably short period only through a synthesis of capitalism and socialism. Speaking of the fundamental need to develop India's mineral resources and capital goods industry, the report of the Government of India Planning Commission states that "The responsibility for new development in these fields must be undertaken in the main by the State, and the existing units have also to fall into line with the emerging pattern."

The first such plan, inspired by this principle, succeeded in raising the national income by more than 17% between 1951 and 1956. This achievement is particularly notable in view of the fact that only about 80% of the $5 billion of the expenditures planned for the "public" (Government) sector were actually made. It also differed markedly from the Second Five-Year Plan, recently launched, in two respects. First, private and public investment under the first plan were roughly equal, whereas the second plan allocates $10 billion to public investment and little less than $5 billion to the private sector. That is to say, the bulk of the nation's capital resources are to be poured into the expansion of basic power, transportation and capital goods industries under Government auspices. The second major difference between the two plans is the shift in emphasis from agricultural to industrial expansion.

Production of food is still to increase by better than 20% between 1956 and 1961. But the most dramatic achievements are planned for the industrial field. National income is expected to

Indian - U. S. Trade
Principal Imports from the United States, 1955-56

Commodity	Quantity (lorng tons, except as indicated) Apr. 1, 1955-Mar. 31, 1956	Quantity Apr. 1-Dec. 31, 1956	Value (thousands of dollars) Apr. 1, 1955-Mar. 31, 1956	Value Apr. 1-Dec. 31, 1956
Imports, total			187,555	148,219
Milk skimmed, and dried or powdered ..... cwt.	160,084		2,958	5,013
Food preparations			5,271	5,013
Wheat	(1)	1,250	9,265	74
Rubber, raw ..... 1,000 lb.	2,667	4,685	692	1,293
Tobacco, unmanufactured ..... 1,000 lb.	2,619	1,113	2,428	1,085
Cotton, raw	2,402	11,688	2,338	11,097
Gasoline ..... 1,000 imp. gal.	9,949	3,393	3,126	1,036
Lubricating oil ..... 1,000 imp. gal.	10,788	9,090	5,618	4,877
Asphalt	215,105	2,280	1,583	148
Sulfur, brimstone ..... cwt.	1,516,378	970,568	4,020	2,556
Sheets and plates of iron or steel	36,589	22,723	4,958	5,527
Tinplate	45,890	23,363	8,679	4,752
Iron and steel ,other	(1)	(1)	6,748	(1)
Copper unwrought ..... cwt.	92,817	186,526	4,578	9,686
Hardware			1,814	1,339
Electrical goods and apparatus			2,286	2,050
Electrical machinery			3,471	1,951
Earth-moving and earth-shifting machinery			3,280	4,827
Cotton textile machinery			2,039	1,552
Refrigerating machinery			1,693	1,286
Agricultural tractors and parts			4,476	5,552
Machinery, other			19,854	20,858
Trucks, buses, and chassis number	4,334	3,645	4,974	4,846
Automobiles and chassis number	5,127	3,294	7,367	4,307
Antibiotics			2,365	1,793
Chemicals, drugs, and medicines, other			9,894	(1)
Other merchandise			59,620	50,714

(1) Not reported in source.

Principal Exports to the United States, 1955-56

Commodity	Quantity in units indicated) Apr. 1, 1955-Mar. 31, 1956	Quantity Apr. 1-Dec. 31, 1956	Value (thousands of dollars) Apr. 1, 1955-Mar. 31, 1956	Value Apr. 1-Dec. 31, 1956
Exports, total			184,167	138,135
Domestic exports, total			180,260	135,730
Goatskins, raw ..... cwt.	91,971	58,000	4,933	2,299
Hides and skins			1,819	(1)
Cashew kernels ..... cwt.	488,149	348,863	21,736	17,675
Tea, black ..... 1,000 lb.	25,435	19,127	14,242	11,804
Pepper ..... cwt.	132,264	78,241	4,853	2,195
Seedlac ..... cwt.	133,362	74,153	5,677	2,499
Shellac ..... cwt.	57,084	36,884	2,679	1,482
Peanuts and other oilseeds			2,117	(1)
Castor oil ..... 1,000 imp. gal.	4,894	4,669	4,074	5,938
Oils, other			2,368	(1)
Cotton waste ..... cwt.	237,868	131,415	1,874	863
Jute bagging for raw cotton ..... cwt.	63 ,096	632,090	4,509	5,142
Jute burlap ..... long tons	173,259	149,691	60,623	49,235
Wool, raw ..... 1,000 lbs.	12,779	6,475	8,244	4,563
Mica blocks and splittings ..... cwt.	104,344	62,719	7,580	5,128
Manganese ore ..... 1,000 long tons	321	164	8,522	5,692
I!menite ..... long tons	128,376	95,103	1,652	1,385
Chemicals, drugs, and medicines			2,093	(1)
Other merchandise			20,665	19,830
Re-exports			3,907	2,405

(1) Note reported in source.
U. S. Dept. of Commerce.

rise by more than 15%, which would mean an 18% gain in per capita income over current levels. Three, and possibly four, new steel mills will lift steel prduction by almost 250%. Coal output is scheduled to gain 63%, electrical generating capacity will be doubled, while domestic production of fertilizers will be increased by 350%. In human terms, the Second Five-Year Plan will create a maximum of 4.5 million new jobs for the 10 million workers who are expected to enter the labor force during the course of the plan.

These are the rough physical dimensions of the goals which India has set for itself. They are extremely modest in terms of the country's needs but, to some, unduly ambitious in the light of India's limited resources of foreign exchange and technical skills. Furthermore, domestic sources of capital are no more plentiful. An economy as threadbare as India's, forced to close its eyes to the future because it can barely satisfy today's wants, does not produce enough to create that margin of savings which must be reinvested in the creation of those capital goods upon which an expanding economy must be built. Consequently, the rate of capital formation in India is considerably short of the 10% of gross national product which an economic rule of thumb considers to be the indispensable minimum for a country with a rising population. Thus, India, like so many other underdeveloped countrics, is held in the steely grip of an economic irony which dictates that a nation which is industrially underdeveloped because it cannot save enough from current production for investment must set aside a portion of current production for investment before it can make any progress in raising the living standards of its people.

Shortages of Resources and Capital

Nations caught in this vicious circle generally seek to escape from their predicament by borrowing from the future or from prosperous countries. The first formula entails the well-known process of deficit financing, inflation and all the attendant economic and social evils. The merits of this approach to economic development, particularly in its "controlled" or less extreme form, are still argued heatedly here and abroad. However, India has to some extent placed herself above this partisan strife and side-stepped the possible consequences of this approach by seeking the assistance of foreign capital, public and private. While it cannot be excluded that New Delhi may be forced to fall back on the first alternative if she cannot raise the requisite funds abroad, India nevertheless has decided to base the future of her Second Five-Year Plan on the hopeful expectation that the response to her appeal may be generous enough to raise the $1.5 billion in foreign exchange that is needed to meet the goals of the Second Five-Year Plan.

Capital Imports Vital To India's Progress

It is thus no exaggeration to say that the whole future of the Indian economy and, more immediately, of the Second Five-Year Plan, rests squarely on India's ability to attract foreign capital to her shores. An adequate volume of foreign investment and aid will enable India to reach that stage where she can generate enough savings to finance her future growth. Failing that, India must either radically modify her economic blueprints for the future or severely pare the nation's economic budget and prune her expansion plans. In the first instance this would mean that India would have to adopt more radical alternatives, possibly a move toward the methods adopted by Communist China, with all its attendant implications for India's future political relations with the rest of the world and its influence on the large group of "uncommitted nations" that constitute the Asian-Arab bloc of 15 countries in the United Nations.

India's Second Five-Year Plan
(Government Sector)

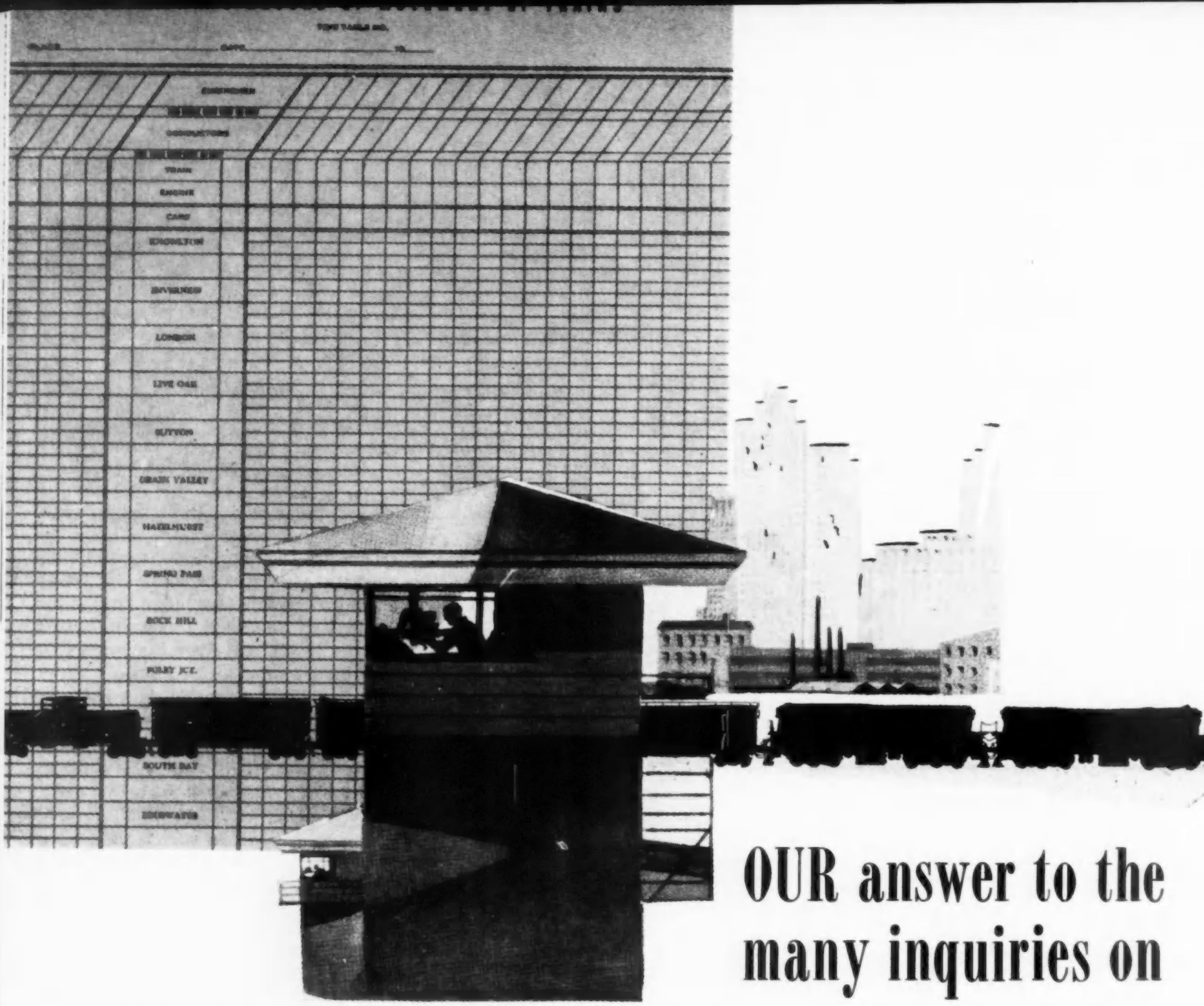
Sectors	Allocations (Millions of Dollars)
Transportation and Communication	$ 2,907
Industries and Mineral Development	1,871
Social Services and Housing	1,987
Agriculture and Community Development	1,186
Flood Control and Irrigation	962
Power	924
Miscellaneous	243
Total Government Outlay	$10,080
These Funds Will Come From:	
Surplus From Current Revenue	$ 1,680
Railway Profits	315
Government Retirement and Insurance Funds	525
Foreign Aid	1,680
Public Borrowing From Individuals	2,520
Public Borrowing From Banks	2,520
Total	$ 9,240
DEFICIT	$ 840

The second alternative involves a pruning of India's immediate economic ambitions. In practical terms this would mean that India's Second Five-Year Plan will have to be radically modified. India's initial economic objectives will then have to be reduced to the so-called hard core of the Plan: expansion of steel, coal, railway and port facilities and completion of some river projects. Finance Minister T. T. Krishanamachari vows that he is determined to push these projects through and that he intends to devote all of India's foreign excange to them. Thus, present indications are that the Plan's hard core, comprising iron and steel, mining, transport and power projects will be pushed through, come what may. There also is an element of the Spartan in Krishnamachari's vow that he will not sacrifice the Plan's major projects to save the country hardship now.

Impatience With "Slow" Progress

But the threat to India's political future and to her adherence to democratic principles lies in the fact that present hardship may all too easily be translated into future political unrest. For the political temper of the country, rebelling against centuries of deprivation and inspired by rival visions of a more prosperous future, does not lend itself to Spartan heroics. The masses of India have learned that abstinence is not necessarily a moral virtue. Ghandi taught them that self abnegation can become a double-edged political weapon. And the danger is that it may be used to shortcut India's democratic processes.

Already there are signs (*Please turn to page* 366)



OUR answer to the many inquiries on THE NEW YORK CENTRAL-PENNSYLVANIA MERGER

By Jacques Doremus

■ The announcement of merger talks by the New York Central and Pennsylvania Railroads recently produced less consternation and excitement among sophisticated rail observers apparently than it induced on a wider front.

There were factors at the time of the announcement which produced this calm, and developments since seem to prove the case of the undisturbed.

Before getting into a discussion of such factors, it must be assumed that when two corporate structures of this size, age and indirect influence talk about marriage there is a sensational carry-over which will ensure speculation and discussion for some time to come—and that this dramatic stimulus will have real effect upon the rail industry and among those who in one way or another are dependent upon it. In short, the merger announcement may itself serve purposes and cause fluctuations in rate, regulatory and investment circles, beyond anything foreseeable in actual consolidation of the two big properties.

Events already are bearing this out. The announce is believed to have had some effect upon: the calling for Senate subcommittee investigation Jan. 13 of "the serious troubles of the railroads;" passenger deficit hearings continued by the Interstate Commerce Commission; pleas for tax relief and higher passenger fare before various State bodies; petitions for greater freedom in juggling freight rate increases to keep traffic from being further siphoned off by trucks and barges; and finally, the announcement certainly cannot hurt the chances, considered recently almost nil, for a plan to have Eastern rail purchasing bolstered by a Federally supported pool of rentable rolling stock.

The Real Troubles

The investor interested in the long or short range financial health of these two roads, and in the possible effect of the merger announcement upon that

health, should not jump into hasty consideration of the merger as such, forgetting to weigh the more immediate and possibly real aims of the pronouncement.

In the estimate of some, the announcement was more a surface manifestation of the disease than a prescription for its cure. The malady is that of declining enthusiasm for the stocks, decreasing carloadings, high tax and passenger service costs of these two railroads, furiously paced, as it were, by a demand for rapid improvement in cost ratios. Such factors are coming together at an increasing rate as the year 1957 closes.

In this combination of unfortunate circumstances the Central and Pennsy stand to suffer more severely and quickly than the rest of the rail industry. And pressure of these problems promises to mount as the carriers move into 1958.

Net income on the Pennsylvania dropped from $2.38 per share in the first nine months of 1956 to $1.49 this year. On the Central, net plunged to $1.31 per share in the first eight months of this year from $4.08 in the same period last year.

The seriousness of the situation might be indicated by the fact that both roads reported not long ago a working capital position in excess of $80 million. Examination shows, however, that on the Pennsy, for example, $85,394,178 in working capital was reported at the end of last September. But this was a calculation which according to ICC accounting includes materials and supplies and does not include debt payable within one year.

No one even partially conversant with the recent market quotations on Central and Pennsy stock needs a recitation of the reception both roads receive from the public investment community. And within the past few weeks a prominent group of investment brokers and officials turned thumbs down on a plea for support of the so-called Symes Plan for governmental aid in rail equipment financing.

Pleading Their Case

Real evidence of distress remains the only hope for Congressional action to aid the carriers. Without it, no offering of support before Federal and State agencies has been forthcoming. As a matter of fact, som segments of the rail industry have listed objections to the idea of Federal help to the Eastern road idea.

The Central and Pennsy are more aware of these pressures than any other carrier. They have in the face of marginal operations spent large sums on capital improvements, reaching in this fashion for over-due modernization in the hope of reducing high operating costs.

The Pennsy for example, spent in the last eight years $648 million on improvements. In 1956 alone it spent more than $70 million. And in the first nine months of 1957 the Pennsy spent $41,454,115 on road and equipment improvements. All this was done while deficits were listed for passenger services running around $50 million per year. The Central figures are comparable.

Close observrs of the two carriers divide into two camps in discussing whether the roads can raise themselves by their own bootstraps. Some think economies could be made where none are being tried. Others think both roads have aggressive managements as modern as any elsewhere. But there is no argument that urban service, urban taxes and urban area operating regulations put a burden upon these two carriers under which no healthy railroad in the country could look good.

Despite improvements, operating costs remain high. Wage ratios throughout the industry are considered higher than they need be in a day of rapid technological advance. But the industry average of less than 50 per cent is worsened in the East. The Pennsy reported it spent 51c of the revenue dollar on wages.

As traffic declines, of course, such ratios go up, though at a decreasing rate.

Cross Currents In the Rail Industry

On top of these problems the two large Eastern roads face troubles within their industry. Some carriers more fortunately situated have carried out capital improvements previously which now are paying off, and they do not encounter limiting tax and regulatory conditions as stringent as those applied to the Pennsy and Central. Therefore, these other roads are interested in lowering rates to shippers in order to capture traffic. They want no part of Federal aid in financing. And in some cases they privately abhore what they term the bad name which "national averages" now give the industry. They point out that the Central and Pennsy carry a preponderance of national passenger traffic and much of the nation's import-export originated freight. Half their operational plant is related to passenger traffic. So their effect upon industry-wide statistics has a deadening effect.

Some rail leaders are asking that statistics be developed to exclude Central and Pennsy figures and

Income Account Statistics — N. Y. Central R. R., and Pennsylvania R. R.

INCOME ACCOUNT	New York Central R. R. 9 Months to Sept. 30 1956	New York Central R. R. 9 Months to Sept. 30 1957	Pennsylvania R. R. 9 Months to Sept. 30 1956	Pennsylvania R. R. 9 Months to Sept. 30 1957	N. Y. Central 1956	Pennsylvania 1956
Gross Revenue (mil.)	$581.0	$559.2	$737.7	$755.2	$872.4	$991.1
Maintenance of way (mil.)	$ 63.9	$ 69.3	$ 79.1	$ 87.2	$ 93.6	$105.4
Maintenance ratio (%)	28.5%	29.8%	31.0%	32.2%	29.1%	30.6%
Maintenance of equipment (mil.)	$101.4	$ 97.0	$149.5	$155.7	$161.2	$198.2
Transportation expense (mil.)	$263.6	$262.2	$328.3	$338.6	$396.5	$446.2
Transportation ratio (%)	45.4%	46.9%	44.5%	44.8%	45.4%	45.2%
Total operating expense (mil.)	$470.4	$469.6	$605.9	$633.6	$713.9	$816.7
Operating ratio (%)	81.0%	84.0%	82.2%	83.9%	81.8%	82.4%
Times charges earned after income tax	1.83	1.26	1.93	1.59	1.98	1.92
Net Income (mil.)	$ 28.1	$ 8.7	$ 31.2	$ 19.5	$ 42.7	$ 41.5
Earned per share	$ 4.33	$ 1.35	$ 2.38	$ 1.49	$ 6.58	$ 3.16

those of the abnormally fat Pocahontas carriers from industry averages.

This feeling of gradual unanimity of interest between Central and Pennsy, plus that of isolation from the rest of the industry in some particulars, matic makes an announcement of possible merger a dramatic means of challenging the rest of the industry. That these two traditionally competitive forces, often played one against the other, could by circumstance be forced together could give some industry executives pause, runs the argument.

Will They Merge?

If the merger announcement alone had an effect upon all these problems that might be beneficial to the Central and Pennsy at least in underlining their situation, and at most citing the need for meliorative action, why stop there? Why not go on to take merger itself seriously?

The answer by some is that there is no real evidence yet that the two railroads themselves take merger seriously even though a starting date for talks probably been set.

This evidence stacks up this way. At the time of the announcement James Symes, president of the Pennsy, said that the first overture between the railroads—reportedly made by the Pennsy to the Central —had taken place only 30 days prior to the public statement concerning merger talks, yet informed estimates have it that a bare minimum of two years would be required to prepare the kind of material the ICC would require before looking into the matter seriously.

This kind of information would have to be assembled on top of the preliminary studies which presumably would already have demonstrated to stockholders and interested parties in both companies the desirability of merger, or joint use of facilities.

Furthermore, several rail labor leaders already are on record opposing merger of two two carriers. And in all sorts of affected quarters there are forces which carry enough weight to further stall actual motions toward large-scale consolidation.

Actual Merger Would Take Many Years

Perhaps the language of the initial pronouncement led to some confusion about immediate and actual aims and objectives. The presidents of the two roads said "they have initiated studies looking toward a possible merger of these two railroads. Preliminary studies and discussions that have been held indicate that substantial benefits to all concerned may result from such a merger."

Then within a week, and in more reserved fashion, the Pennsy circulated among its employes what might be a more telling analysis of the status of the talks and "preliminary studies:" it was explained that the statement was issued to forestall rumors and distortions of what was actually taking place.

If a study committee were immediately appointed, surveys and statistical data assembled as rapidly as possible, and overtures made to affected parties at once, informed guesses are that it would take some time from the starting date to get past the obstacles now lying before that goal.

Meanwhile, the initial announcement carried all sorts of overtones which upon reflection have evaporated. First news reports quoted an unidentified Department of Justice official as saying that anti-trust, anti-monopoly statutes of the Federal government would immediately come into play. Actually, anti-trust features of the Clayton Act are inapplicable to rails. An amendment to the ICC Act empowers the Commerce Commission to protect public interest in such cases. The Justice Department only could appear in the case as an intervener before the ICC, or before a court in a case involving some adverse effect of merged facilities.

The remark of such elderly statesmen as Bernard Baruch and others added dramatic proportion to the announcement, but only tended to substantiate the non-novel character of (*Please turn to page* 368)

Balance Sheet Data – New York Central and Pennsylvania R. R.

BALANCE SHEET	New York Central December 31, 1956	Pennsylvania December 31, 1956
	(Millions)	
Investment in Road & Equipment	$ 2,864.9	$ 1,938.1
Depreciation & Amort.	(CR) 709.1	(CR) 692.7
Investments in Affiliates	37.2	875.4
Other Investments and Funds	46.6	52.2
Cash and Cash Items	141.8	128.3
Total Current Assets	288.4	260.4
Tutal Current Liabilities	150.8	150.6
Net Working Capital	137.5	109.8
Total Assets	2,624.7	2,468.5
Capital Stock (Stated Value)	$ 564.1	$ 668.5
Total Long Term Debt	1,028.5	719.1
Combined Surplus	694.9	740.5
Book Value Per Share	150.10	107.61
Number of Shares Outstanding	6,499,141	13,167,754

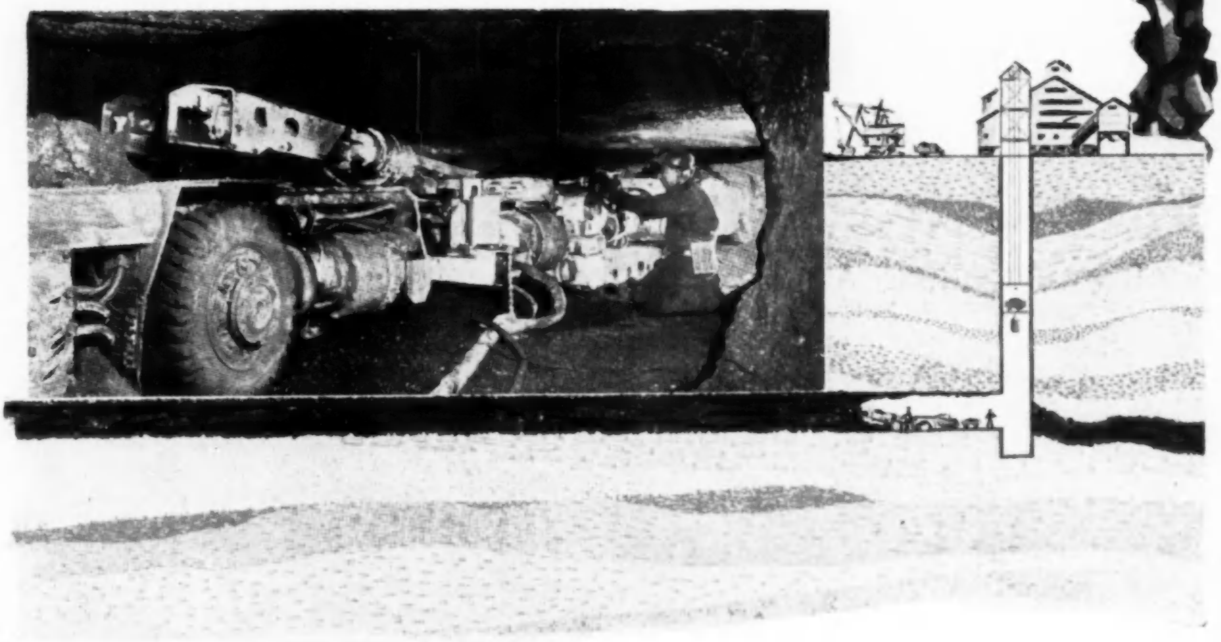
1—Plus 1/25 share of Reading Co. com. valued at $1.31 per share and 1/65 share of Reading Co., 2nd pfd.

	New York Central		Pennsylvania	
	As of September 30			
	1956	1957	1956	1957
CURRENT POSITION	(Millions)			
Cash and Cash Items	$ 81.4	$ 75.1	$119.5	$100.0
Total Current Assets	202.4	173.0	255.7	230.1
Total Current Liabilities	136.3	124.8	146.7	144.7
Net Working Capital	66.1	48.2	108.9	85.3
CAPITAL EXPENDITURES (Additions & Betterments)	9 mos. through Sept. 3			
	1956	1957	1956	1957
Road	$ 13.4	$ 25.5	$ 23.3	$ 15.3
Equipment	40.6	68.0	37.7	26.0

	New York Central	Pennsylvania
Recent Price of Capital Stock	$ 1.00[1]	$ .80[2]
Indicated 1957 Dividend	16½	13¾
Dividend Yield	6.0%	5.8%

2—Dividend reduced recently from $.35 quar. to $.20 payment.

A FRESH APPRAISAL OF COAL INDUSTRY TODAY



By CHARLES GRAYSON

Virtually assigned to the scrapheap a few years ago as the expiring remnant of a once robust industry, bituminous coal has staged a remarkable revival in the years following the 1954 recession. But, accustomed to being sick for a long time, the industry's expectations about the speed of its comeback turned out to be a bit too glowing. It is now clear that 1957, following on the heels of two boom years will turn out to be a pause in the recovery cycle. In the meantime, however, bituminous coal securities have acquired a long-forgotten investment popularity, and there is every reason to expect that the industry, which faces a bright future, will bound ahead again once it has caught its breath.

The soft coal industry had been in a tailspin for many years, when the 1954 recession came along and almost added the finishing touch. The dieselization of the nation's railroads deprived the industry of what had been historically its largest market, and the shift away from coal in the home and small commercial furnace market, served to grease the skids some more. Coal equities took a nose dive as investors forgot that for more than 100 years the multi-billion dollar bituminous coal industry had been the mainstay of the industrial revolution, and that its proprietorship of one of the nation's greatest resources remains intact! Reserves in the United States are estimated at approximately 1,900 billion tons, or 950 billion tons on a 50% recovery basis, sufficient for some 1,900 years at the current production rate of about 500 million tons annually.

Mechanization Sparks Recovery

The nation's climb out of the 1954 recession signaled the comeback of the bituminous coal industry, as three major soft coal markets—utilities, steel and exports, began to expand their requirements for this age-old fuel. On the other hand, anthracite coal, which should be considered as really another industry because of its fundamental differences, has not matched this return to health. These new marketing opportunities for soft coal, however, appeared largely, if not solely, because of major improvements

in mining and preparation technology which propelled coal into a position it had not known for a long time—it became competitive with other fuels. Competitive price disadvantages had long plagued coal, largely due to the heavy railroad transportation costs; oil proved less costly delivered by ship to the East Coast, cheap natural gas traveled cross-country through vast pipeline systems, and inexpensive water power proved abundant in the West. But in a real push to improve its unhappy lot, productivity at the mine was spectacularly boosted by a series of major moves in the battle to achieve mechanization, and quality was importantly upgraded by improved preparation techniques, both of which served to offset in large measure the disadvantage of higher transportation costs.

The expansion of the electric utility industry provided the biggest play of soft coal in the three potential markets, as the nation's increased demand for power in the post World War II period forced the utilities, which had replaced coal with other fuels, to reconsider the importantly improved characteristics of bituminous coal. Noteworthy indeed is the fact that non-coal utility plants, geared for oil and gas, have again been adding coal combustion equipment. Coal is now the source of more electric power in the U. S. than all other fuels and water power combined.

The huge post-war demand for steel provided yet another strong impetus for increased production of metallurgical grades of soft coal. Despite the fact that the steel industry now utilizes about 40% less coking coal to make a ton of steel than it did in 1933, the industry's phenomenal expansion of capacity has required much greater coal tonnage, underscored vividly by the fact that the steel industry's use of some 46 million tons of coal in 1938 grew to 106 million tons last year. Finally, the staggering demand by Western Europe for bituminous coal, particularly of the metallurgical grades, has provided the third sharp needle to American production. Europe purchased some 41 million tons of coal in 1956, four times the tonnage of 1954, and West Germany alone last year imported about twelve million tons of American coal. Likewise, exports to Canada, South America and Asia have also climbed impressively.

The improved productivity of the bituminous coal industry is reflected in the output of an American coal miner, which hurdled from roundly 6½ tons per man day in 1947 to almost 11 tons in 1956, a gain of 68% in the 10 year period. At the same time, Western Europe's productivity stands about where it was prior to the second world war and two tons per man day is there regarded as a feat of which to be proud. And not only have the industry's recent productivity gains exceeded those of its European competitors by a wide margin, but they have been much greater than those of several other large United States industries, although admittedly starting from a lower base.

Displacing Human Labor

Of course the key word in our progress, as had already been characterized, is mechanization. Roundly 74% of American coal is mined underground where mechanical equipment has replaced the miner in a large part of the multi-fold operations. Many an older miner still shakes his head at the degree of mechanization now involved in everything from roof construction, transportation and communication, and most important in the actual mining operations—drilling, blasting and loading, all the way to bringing the coal to the surface and running it through the multi-million dollar preparation plants. The proportion of underground loading by machine in U. S. mines has jumped almost 50% in the past decade.

By far the most important innovation vis-a-vis underground mining is the continous miner. This monster cuts and loads, biting off more than four tons of coal a minute and then loading it on a car or conveyer, thus eliminating the many miners formerly involved in this operation in unimaginable cramped quarters. More than 500 continuous miners are now at work, costing up to $135,000 each. Not only has this machine done much to revolutionize

Financial Statistics on 11 Coal Companies

	1956			1st 9 Months							
				1956		1957					
	Net Sales (Mil.)	Earnings Per Share	Div. Per Share	Net Sales (Mil.)	Earnings Per Share	Net Sales (Mil.)	Earnings Per Share	Indicated 1957 Dividend	Price Range 1956-57	Recent Price	Yield Div.
Eastern Gas & Fuel	$176.8	$3.61	$1.40[3]	$127.0	$2.07	$ 42.8	$3.18	$1.60[3]	42½-15⅝	28	6.4%
Glen Alden Corp.	67.5	.91	.10	35.4[7]	.44[7]	36.8[7]	.87[7]	.20[5]	16⅜- 9⅛	10	2.0
Island Creek Coal	117.4	4.03	2.00	85.0	2.61	90.6	3.14	2.00	56⅞-30⅜	32	6.2
Lehigh Coal & Navigation	16.9	1.58	.75	n.a.	1.15	n.a.	.94	.75	17¾-11⅜	12	6.2
Lehigh Valley Coal Corp.	19.6	.19	......	14.0	[d].17	15.1	[d].20	......	2¾- 1⅛	1¼	.
Peabody Coal Co.	97.4	1.01	[4]	68.5	.52	76.5	.78	.10	14⅞- 7⅝	8	1.2
Pittsburgh Consol. Coal	335.5	2.39	1.20	143.0	1.68	277.7	2.08	1.20	50½-29⅝	30	4.0
Pittston Co.	246.2	6.30	1.20[3]	130.6[7]	2.50[7]	151.5[7]	3.78[7]	1.20[3]	84 -36⅝	46	2.6
Truax-Traer Coal Co.	47.8[1]	2.16[1]	1.60	9.6[8]	.26[8]	10.5[8]	.26[8]	1.60	33⅞-17¾	19	8.4
United Electric Coal Cos.	12.4[6]	1.01[6]	1.00	14.9[2]	2.45[2]	16.3[2]	3.02[2]	1.60	36⅜-21	25	6.4
West Kentucky Coal	20.7	1.76	1.00	n.a.	1.32	n.a.	1.16	1.00	44½-16½	17	5.8

n.a.—Not available
[d]—Deficit.
[1]—Year ended April 30, 1957.
[2]—Years ended July 31, 1956 & 1957.
[3]—Plus stock.
[4]—Paid 2% in stock.
[5]—Paid thus far in 1957.
[6]—Year ended July 31, 1955.
[7]—6 months.
[8]—Fiscal quarter ended July 31.

American underground coal mining operations, but it is expected to boost our mine productivity far more in the coming years as new mines come into operation. Strip mining, too, has benefited from modern techniques. At the Pittsburgh Consolidation Coal Company, the nation's biggest producer, a $2.5 million shovel is in operation, which can chew up 2 million cubic yards of overburden per month.

Coal Now Has Cost Advantage Over Oil and Gas

Soft coal's burgeoning rise in productivity is reflected most vividly in its market price, which underlies the industry's newly-won competitive position. Important is the fact that the recent movement of industrial fuel prices, while historically interesting, is considered by many as indicative of a longer term trend. Natural gas blossomed from a 10% factor in the fuel market in 1935 to 26% in 1955 on the basis of very low well-head prices, as low as 3½¢ per 1,000 cubic feet, and dump-rate sales to industry. Recent field costs, however, are reflected in contracts made at 20¢ to 22¢ per 1,000 cubic feet. In most parts of the East and mid-West, coal has a definite price advantage over gas, while in areas contiguous to gas producing states, gas prices are running between 100% and 125% of the coal price. Recent increases in the price of heavy fuel oils have also done much to improve soft coal's position. A leading Florida utility announced earlier this year that in less than 24 months, the price of residual oil had been raised from $2.15 a barrel to an average of $3.15, a rise which would have been the equivalent of about $4.30 per ton of coal. The price of industrial coal, on the other hand, is lower than it was in 1948, and in the year 1956 was actually lower than during the base period of 1947-1949, used by the Bureau of Labor Statistics in presenting price data (1956 = 97, 1952 = 100, 1948 = 115, and the index 1947-1949 = 100).

Perhaps the principal reasons why coal can be expected to maintain its economic advantage over its competitors is because of a combination of two factors; fabulously huge reserves and their ready availability. Reference has already been made to the industry's total estimated reserves of almost 2 thousand billion tons. What is even more important, however, is that one-quarter of these reserves are economically recoverable at today's cost of mining. Reserves thus equal about 500 years' supply at present rates of annual production. On the other hand, the known combined reserves of crude petroleum, natural gas and natural gas liquids, according to data prepared by the American Gas Association and the American Petroleum Institute, are less than 1% the size of known coal reserves, on a BTU basis. Figured at about 16 billion tons of coal equivalent, this represents approximately a 17 year supply at current rates of production. Of course these estimates of gas and petroleum reserves—as well as those of coal—are not final figures, as new discoveries are made in the U. S. every year. But the important economic fact is that new discoveries are becoming not only less frequent as time goes on, but also more expensive. Long before oil and gas reserves are exhausted, increasing and prohibitive costs can be expected to limit the contribution of oil and natural gas to our increased energy requirements.

Atomic Energy Competition

While no discussion of fuel costs and availability can ignore the spectre of atomic energy on the horizon, it can be assumed that the atom as a source of energy will remain a minor factor in this country for a considerable time to come. Addressing the American Mining Congress last year, Mr. Philip Sporn, President of the American Gas & Electric Company, estimated that in twenty years atomic power would be providing no more than 7.5% of total electric power generation—and electric power from the utilities is only a fraction of the total energy picture. In the meantime, the U. S. atomic energy program is absorbing over 20% of industrial electricity generated by the utilities on a nationwide basis, and with atomic energy plants concentrated in coal's territory, easily 20 million tons of coal annually are going into the program.

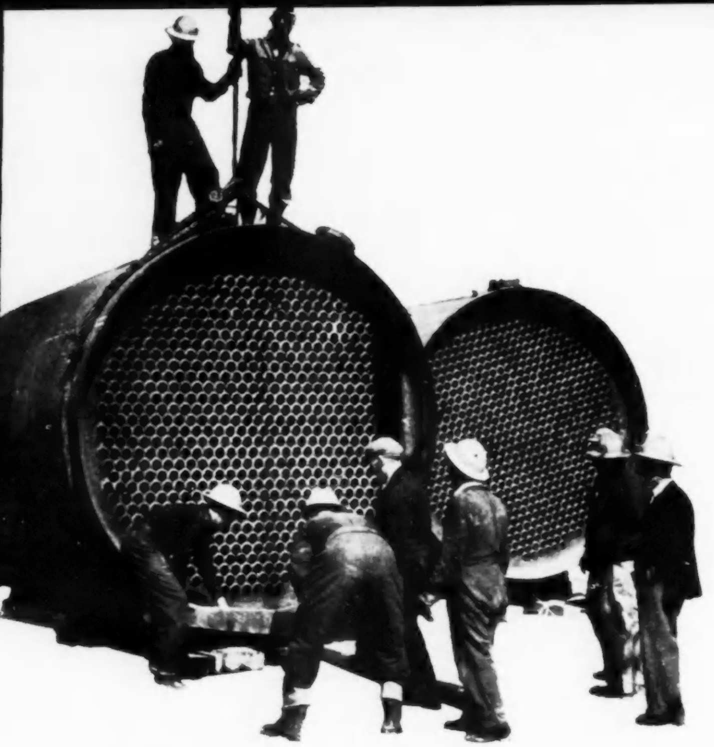
The final factor in coal's bounce back to basic good health has been a pleasing period of labor peace. John L. Lewis, patriarch of the nation's more than 200,000 mine workers, has had the rare wisdom of knowing just how far to push labor's cause before breaking the proverbial camel's back and pushing the industry "over the brink." He has now joined with coal operators in fostering labor peace, operating with them in a new spirit of harmony—at least for the present.

Growing Trend Towards Fewer and Larger Companies

Sharp on the heels of the industry's success in mechanizing its operations has come another revolution of perhaps equal importance for the future well-being of bituminous coal—a move towards consolidation in this largely fragmented industry. Because of the huge capital expenditures required for mechanization and the increasingly expensive research efforts, and also to make better use of the available successful management, recent years have seen a burst of merger activity. In 1955, Peabody Coal and The Sinclair Company merged to form the second largest commercial coal operation in the nation. Last year, Pittsburgh Consolidation Coal, the nation's largest bituminous producer, acquired the Pocahontas Fuel Corporation. Island Creek Coal has during recent years absorbed three companies, with Pittston and West Kentucky Coal each making one acquisition.

During 1956, production of bituminous coal climbed 7.5% to the half billion ton level, the best normal year since 1948, when just under 600 million tons were dug. During the Korean war years of 1950 and 1951, volume topped last year's levels by small amounts, but by 1954 had fallen to 392 million tons, the lowest since 1938. Company profits have likewise been glowing, as detailed in the accompanying tabulation and in the following company sketches.

The industry's progress on the road towards centralization is brought into sharp focus by figures showing the percentage of total coal production in recent years by the top fifty companies. Starting with the year 1947, the top fifty bituminous producers in the nation have steadily increased their share of total business, climbing from 41.8% of total volume in *(Please turn to page 374)*



By Joseph L. Stanley

WILL POWER GENERATING COMPANIES
keep steaming along?

■ With an anticipated good increase in public utility expenditures forecast in 1958, it appears that the power engineering companies are well situated for the present, but they are by no means in an ideal position since various cost factors are constantly on the increase. For example, the recent steel price increase of 6% and the higher freight rates, making profit margins difficult to project for companies that by the nature of their business must expect broad cyclical swings.

The production of electrical industrial apparatus normally moves in line with total capital goods output. Orders for new generators are usually placed two to three years in advance of their installation. This explains the time lag between the actual authorization of utility industry expansion and the earnings of the utility equipment manufacturers. In 1957, the overall level of capital expenditures is expected to show only a moderate 5% increase above the level of $35.1 billion reached in 1956 and to decline slightly in 1958. However, expenditures of public utilities should increase 23% from $3.8 billion to $4.65 billion and continue upward into 1958 before leveling out. Then if economic conditions warrant it, a new growth trend may resume in the 1960's. This increase, of course, will be spread over the various phases of utility equipment such as generation, distribution, and transmission equipment.

Earning Pattern Is Volatile

While the consumption of electricity has the ring of stability, the sales and earnings of the heavy utility equipment producers do not fall into the same category, since the utility companies seem to order equipment in cycles. During 1953 and 1954, sales showed a sharp improvement as a result of advance ordering with the outbreak of the Korean War. Shortly thereafter, the production rate of the producers slowed, and a price war developed when incoming orders slowed down. As a result, an adverse impact was left on the earnings of most manufacturers. However, since late 1956, prices have shown good improvement.

Nature of the Industry

Basically, the power engineering companies manufacture steam generating equipment which includes boilers, superheaters, furnaces, and related equipment. Electric utilities are the most important single outlet but the customer list is broad, including the oil and chemical industries among others. As a rule, equipment needs of the electric utilities are the prime determinants of sales and earnings. Since secular growth of electric generating capacity is expected to continue for many years ahead, a similar growth for the power engineering companies seems probable.

Role of Atomic Energy

A discussion of this industry would not be complete without an examination of the development of atomic power. While nuclear power is a potential solution to the ever-growing need for generating

capacity, industrial leaders of utility equipment makers are by no means worried since a nuclear plant requires heavy invested capital. Furthermore, at the onset, power generation through nuclear energy will probably remain inefficient.

The electric utility industry has already had a huge investment in the present type of equipment and is not expected to make it obsolete prior to the time the plants are fully depreciated. A group of utility companies, construction and electrical manufacturers have joined together to study this problem.

Ten experimental atomic fuel plants are well along, and six of these are expected to be generating electricity in the United States by the end of 1959. They are of relatively small size; however, by the end of 1964 we may have two million to three million kilowatts of nuclear capacity in this country. At the present time, there are over 100 industrial enterprises in the United States studying atomic power as members of various groups or, individually, under the Atomic Energy Commission permit program. The real significance of this atomic development program is that the United States will have assurance of an ample supply of electricity to meet its future requirements.

The development of nuclear steam generation equipment is a natural extension of the power engineering companies' traditional activities. In the nuclear power plant, heat from a nuclear reaction is substituted for the heat obtained when conventional fuel are burned. Already these companies are building reactors, reactor cores and atomic power plants for underwater as well as surface vessels. Of course, capital expenditures for research and developmental work are substantial in this field but a position of prominence in the large future potential in atomic power, both for the generation of electricity by utilities and for ship propulsion, seems assured.

Major Power Generating Companies

The power engineering field is dominated largely by two domestic manufacturers of steam generating equipment. There are other companies participating in this field in one way or another but as a group, the number is few. The two principal manufacturers are **Babcock & Wilcox** and **Combustion Engineering.** Next is **Foster Wheeler** as a principal manufacturer with **Allis Chalmers, Worthington Corp.,** and **Carrier Corp.** (through the absorption of the Elliott Co.) as participants through diversification.

Backcock & Wilcox is the leading producer of steam generating equipment for utility, marine and various industrial installations. The company is also an important producer of carbon, alloy, and stainless tubular goods, and insulating firebrick. The company has enjoyed good earnings for more than a decade, and dividends have been paid each year since 1881 with the single exception of 1939.

In general, this company's business can be divided into 60 per cent boilers, 37 per cent tubular products, and 3 per cent refractories. About 60 per cent of the boilers built are for the utility industry, and the remainder are for textile, chemical, and other industrial companies. The tubular products division turns out tubular alloy, carbon and stainless steel. Babcock does not have basic steel facilities to make carbon steel; it purchases billets from other steel companies. Most of the boiler parts are produced from its own castings and foundrys. The company also sells tubes to companies like Combustion Engineering and Foster Wheeler.

In the past two years the utility industry ordered a substantial amount of steam generating equipment. The company's backlog at present is practically at its highest in its history. While the backlog is at a peak, the time lag between incoming orders and billings will keep Babcock's shipments on the rise. Total shipments in 1958 should be higher than in 1957, and from there on, shipments will remain at a rather high plateau. On the same basis, earnings should be higher in 1957 than in 1956, and if all goes well, still higher in 1958. The tubular and refractories division, however, are probably operating at their optimum level, and if the economy slackens here, both sales and earnings of these important divisions can turn lower.

Capital expenditures in 1957 will be approximately the same as the $16 million spent in 1956. In March of 1957 Babcock sold $20 million of common stock. About $15 million of the proceeds will be used to build a new electric furnace for making alloy

Major Steam Power Plant Manufacturers

	1956		1st 9 Months 1956		1st 9 Months 1957		Indicated			
	Net Sales (Mil.)	Net Per Share	Net Sales (Mil.)	Net Per Share	Net Sales (Mil.)	Net Per Share	Div. Rate 1957	Recent Price	Price Range 1956-57	Div. Yield
Allis-Chalmers	$547.4	$2.42	$432.2	$1.87	$419.3	$1.76	$2.00	26	37⅝-24¾	7.6%
Babcock & Wilcox	281.4	2.74	201.9	1.77	269.1	2.43	1.00[3]	33	47½-29	3.0
Carrier Corp.	265.0[1]	3.75[1]	174.9[2]	3.25[2]	193.2[2]	2.40[2]	2.40	34	65¼-33¼	7.0
Combustion-Engineering	169.0	2.04	114.3	1.30	156.9	1.45	1.12	22	34⅜-20¼	5.0
Foster Wheeler	100.6	1.81	71.8	1.11	118.5	2.24	1.60	37	67¾-30¼	4.3
Worthington Corp.	170.2	6.11	124.7	4.58	140.0	4.61	2.50[3]	47	68½-41⅛	5.3

[1]—Estimated for year ended Oct. 31, 1957.
[2]—9 months ended July 31.
[3]—Plus stock.

tubes. Two years may be required to complete a plant of this size and therefore no benefit will be received prior to sometime in 1959. In the meantime the company's earnings will be diluted by this new financing, equivalent to about 10 per cent of its capital structure.

Since 1953, Babcock has been very active in atomic energy development. The company is now an important producer of power reactors, nuclear reactors for vessels, research reactors and special nuclear test equipment. Revenues from this source have been insignificant and the company continues to operate the division at a loss; approximately $2.4 million in 1956 due to large engineering and research expenditures.

In April, 1957 the Atomic Energy Commission awarded Babcock & Wilcox a $10 million contract for the design, development and fabrication of a nuclear reactor and components of the propulsion plant for the first nuclear power merchant ship. The company, among other projects, is constructing the nuclear portion of the $55 million Consolidated Edison atomic power plant in New York. Because of heavy research and developmental expenses, it probably will be some time before operations of the company's atomic energy division become profitable. Babcock's operations concerning steam generating equipment should be maintained at favorable levels.

Combustion Engineering is the second most important producer of heavy steam power generating equipment in the United States. In recent years the company's sales can be divided into roughly 80 per cent steam generating equipment, 12 per cent industrial products and 8 percent miscellaneous items. While Combustion also serves the chemical and paper industries, orders from the public utility companies normally account for 75 per cent of the steam generating volume. In 1956 Combustion installed boilers representing 10 million kilowatts of generating capacity, of which 7 million were of the controlled circulation type. The 10 million kilowatts installed were 50 per cent larger than the work done in the preceding year. In 1956 the company also produced a new high pressure boiler which is understood to be well received in the industry.

Aside from its domestic operations, Combustion Engineering maintains subsidiaries in Canada, England, France, and Germany. The company was the first organization in the United States to invest its own money for a laboratory to design and build an atomic reactor. It is also engaged in the atomic fuel element business.

In order to qualify for a bid on atomic fuel elements, the company manufactured several prototypes at a cost of $500,000. The models passed all the tests satisfactorily, and the company has since received contracts for two reactor cores. Last year, Combustion also received a contract to build a prototype of a nuclear power plant for a small submarine. While the atomic development program has not been profitable, the management has stated publicly that it intends to maintain its position in this race in view of the vast potential.

In line with shipments, revenues rose substantially in the first quarter of this year. Earnings, however, declined, due to additional production costs incurred in placing new facilities in service and the nonrecurring expenditures of its nuclear energy division. For 1957, the company estimates a 20% improvement in net income over 1956. Billings could be increased over 25%.

Capital expenditures for 1957 will be approximately $16 million, slightly higher than what the company announced in the early part of this year. Of the $16 million planned for 1957, $7 million will be allocated to its nuclear engineering and development center at Windsor, Connecticut. Combustion has a total of $50 million of nuclear work in progress, the bulk of which is for the United States Navy.

Backlogs increased to $384 million at the 1956 year-end, 78 percent above the $216 million of a year earlier. Unfilled orders as of July 1, 1957, were reported at $380 million, off slightly from $390 million at the end of the first quarter.

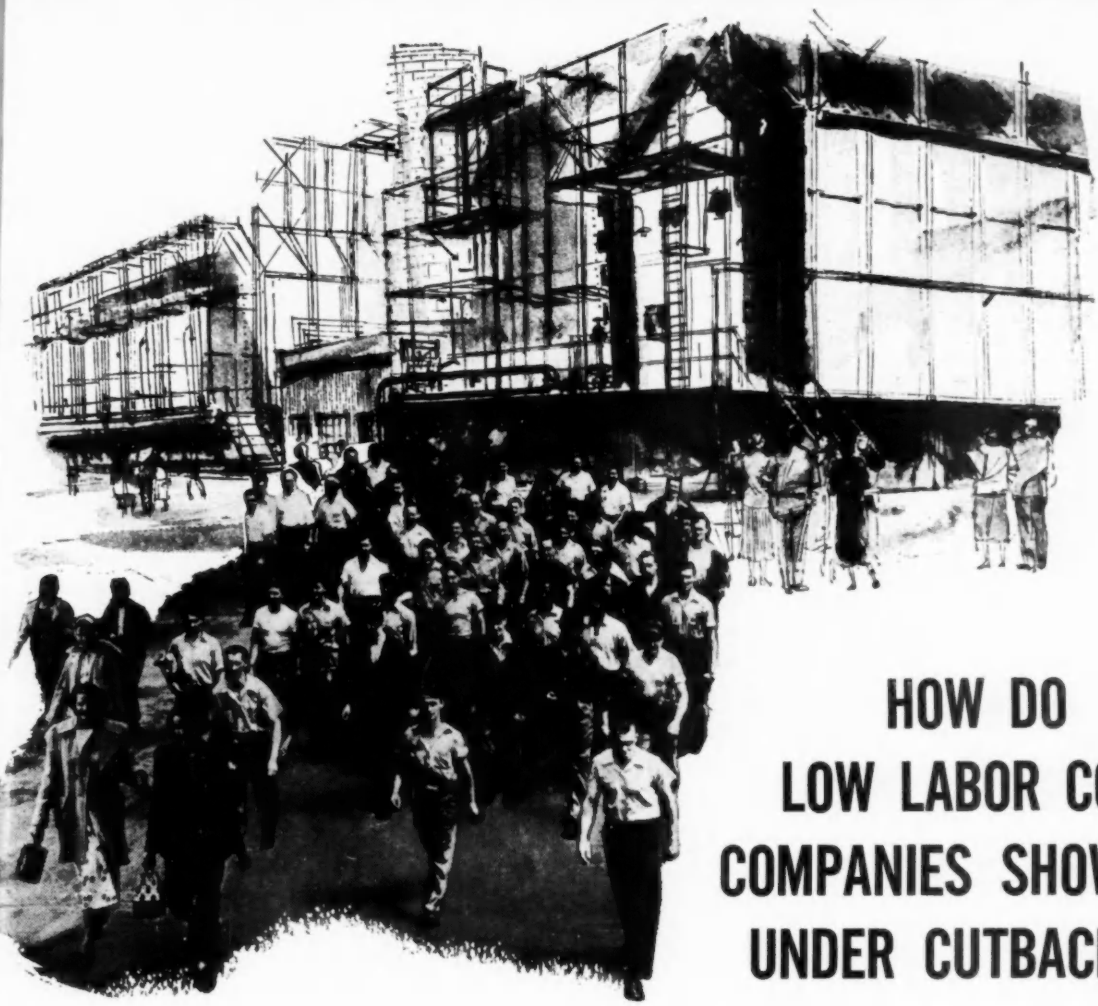
Foster Wheeler Corporation is essentially divided into two major divisions: Equipment Division—producing boilers and condensers for the utility and shipping industry, and Process Plant Division—design, manufacture and installation of equipment for oil refining, chemical and food industries.

Currently, the total backlog, amounting to $360 million (approximately $120 million represents foreign backlog), is practically the highest in the company's history. This backlog is divided into 45 per cent for the Equipment Division and 55 per cent for Process Plant Division. With this backlog, management feels that incoming orders have reached a peak level. Since the company is limited by its plant capacity, it would not be unreasonable to assume that more working capital will be needed before long if business remains at this rate for the company. Capital expenditures in 1957 will total $2.8-$2.9 million versus depreciation of only $800,000-$900,000.

Since competition at all times is keen and overhead costs are heavy, past earnings and dividends have been erratic, and the stock has given a volatile market performance. Foster Wheeler is also actively engaged in atomic energy projects, but this business will be unprofitable for some time. Cylical swings in sales are more severe than for most machinery concerns.

Worthington Corp. is one of the leading manufacturers of a wide range of heavy machinery, and is a major factor in the residential, commercial and industrial air-conditioning field. Main customers are the oil, natural gas, utilities, public works, construction, and chemical industries. Early in 1957, 25 per cent of the company's business was in air-conditioning, refrigeration, and home heating, 12 per cent for public utilities, 20 per cent for oil, natural gas and chemical, and about 5 per cent in construction.

Although Worthington has a relatively small stake in steam generating equipment, sales of high speed, high pressure boiler feed pumps continued at record levels. Since this design was introduced in 1954, a substantial number have been sold for steam power stations and naval aircraft carriers. The Harrison Division maintained industry leadership in the production of steam condensers, boiler feed pumps, and other auxiliaries for large public utilities, in 1956. The Steam Turbine Division set a new peace time record in 1956, and has been enlarged with a separate research and development section established. All of Worthington's product lines having to do with the generation and transmission of power showed increased sales in 1956. For the near term, equipment buying in the oil, natural gas, utility and (*Please turn to page* 376)



HOW DO LOW LABOR COST COMPANIES SHOW UP UNDER CUTBACKS?

By Walter Untermeyer, Jr.

■ Any slowdown or business recession is unlikely to have a great effect on labor costs for most industries, other than those resulting from a shorter work week. Labor unions are too well entrenched for them to consent, as some people might wish, to cuts in wages. It matters little that such a cut might permit an employer to decrease his expenses which in turn might generate more jobs by the additional volume derived through low unit prices. To the contrary and in justification of their existence, the major unions are going to ask for increases all down the line whenever present contracts expire. Overproduction, however would be a mitigating influence against labor demands.

Nevertheless, in recognition of the economic realities of the day, many unions may press for a shorter work week in 1958, rather than concentrate their efforts on higher wage rates. This poses some difficulties to investors because the costs to a company of a reduced work week are hard to calculate, especially in terms of the hidden extra costs inherent in changes in premiums and fringe benefits. Some of these extras may be offset by reductions of overhead, but generally, no matter how you slice it—and assuming an overall hourly wage of $2.00—a decrease in the work week from 40 to 38 hours costs the company about 11¢ per worker per hour. If the work week were shortened to 35 hours, the cost would be 29¢ an hour —and if the week were telescoped into 30 hours, it would tack another 67¢ per hour on to payrolls.

Whether the shorter work week will be as advantageous as union leaders suppose, or as disastrous as many managements fear, must still stand the test of time. So far, only a limited number of industries have been confronted with the problem, and their experience has been inconclusive. A number of paper mills in Wisconsin cut the week to 36 hours, but business was brisk at the time, and it resulted in constant bickering among the employes over sharing overtime. The Lithographers reduced the week from 40 to 35 hours in 1950. But here too operations continued on a full week basis with overtime.

Undoubtedly a shorter week would lead to some labor cost reductions in industries hit by a severe recession. For one thing, much of the potential overtime would become regular time under a "share the work" arrangement designed to keep as many union members employed. But on the whole there seems little hope for sharply reduced labor costs throughout industry generally. Those industries where labor

costs are a volatile variable, however can cut some costs by reducing the labor force, but companies with traditionally low labor costs may find that their profts are prinched still further by their inability to cut down their small labor force.

Position of Low-Labor Cost Companies

No one generalization can cover the varied industrial groups with lower than average labor costs. In the "continuous flow" industries, for example, such as chemicals and petroleum refining, labor costs will remain rigid regardless of the percentage of capacity operation of plants. These highly automated processes require small labor output, but they must be kept going at all times, locking in the existing labor cost regardless of whether business is good or bad.

For these groups, however, labor costs generally cannot be overly important determinants of earnings prospects, although they do deny to the company one important source of cost reduction that other industries have at their disposal.

For the majors, naturally the problem is not as serious as for the secondary companies in the industry. **Allied Chemical,** for instance is in a poor position to cut labor costs, but its important place in the field, and its constant reaching out for new and profitable ventures is an effective offset. Recently, efforts have been made to strengthen the company's basic position by spreading into the titanium field in partnership with Kennecott Copper.

Commercial Solvents, on the other hand may feel the labor pinch more stringently, since its diversification program is still in the formulative stage.

Other major companies, however, such as **Dow,** with its excellent growth record, and **Hercules Powder,** which has just completed an important round of expansion will be less affected by labor cost problems.

Similarly, in the petroleum refining field, labor costs are small. As a matter of fact, for the industry generally, the labor factor is the smallest as a percentage of sales and invested capital of any major group. The outlook for the oils is well known to readers of the MAGAZINE OF WALL STREET, but it is interesting to note here that labor costs do not give the industry much chance for cost reduction at a time when any important savings would be welcome.

Drugs Well Situated

The drug industry is one where labor relations have been excellent, and consequently not an important factor. As a continuous process industry, there would be some proportionate increase in labor costs in the event of a recession, but present outlook for the drug industry is relatively good. Here also, attempts to better product lines are more vital than labor factors.

Abbott Laboratories an old line producer of ethical drugs, is making a vigorous attempt to better its position in the industry through growth of its established line of pharmaceuticals and introduction of several smaller drugs including a nasal decongestant, a treatment for epilepsy, a treatment for peptic ulcers and a cholesterol reducing product. Company sales for the September quarter were up 16%. Earnings for the year should approximate \$3.25 vs. \$2.67 for 1956. At its recent price of 45½, selling at 14 times earnings, the stock is not out of line.

Parke, Davis, which at recent price of 57½, sells at 12 times anticipated 1957 earnings of \$4.75, represents good value. Earnings for this year are 25% better than last year's \$3.40. New in the picture is an "Adenovirus Vaccine" which may protect against three of the eight types of infections of the nose, throat and eyes, although not a cure for the common cold.

At its recent price of 36, **Schering** is selling at a reasonable 9.5 times anticipated 1957 earnings of \$3.75. As a producer of hormones, antihistamines and other ethical drug products, the company has a good record of sales growth. Stock is selling at a reasonable price earnings multiple because of its big stake in the Salk vaccine, a less stable source of earnings, and because company is encountering increasing competition in its Meti Drugs. New products and additional expansion possibilities with entrance into the veterinary field will determine future performance, however.

Paper Industry and Labor Costs

As in the continuous process industries, the high degree of automation in the paper and pulp industry offers little chance for cost reduction. This is especially significant today, when the industry is suffering the pangs of temporary, but painful overcapacity. The further business turn downs, the larger will be the labor cost as a portion of operating costs—a factor which does not speak well for near term profits.

Most of the leading companies are in the same boat —and considering some of the high price-earnings ratios for some of the shares, they may still be vulnerable. Rayonier, at 17 may be adequately deflated —although its near term outlook is not too clear—but Crown Zellerbach at 18 times earnings and Scott at a mutiple of 26, are not for the cautious investor at this time.

Industries With More Control Over Labor Costs

Where automation can be increased or where unionization is not too firmly entrenched, some control of labor costs can be exercised, however.

Thus in the meat industry, although labor is a relatively small cost factor, the fact that meat-packing is a "manual" industry offers possibilities of further cost reduction through automation. Furthermore, when business turns down labor costs can be adjusted downward through layoffs.

Similarly, in the retail field, despite differences in union strength in various sections of the country, labor cost is a more controllable item, especially since many workers are seasonal employees. Furthermore, since the industry outlook is relatively stable, the recession problem is not nearly as serious as for the more volatile industries.

W. T. Grant, as a variety chain reveal the industry pattern of higher sales and lower profits. Labor factors are not subject to much change as a percentage of costs because sales help can be laid off as a lower volume of business might warrant. While W. T. Grant is representative of its group, market potential is not exciting. At its recent price of 27½ yield is a generous 7.3% on the \$2.00 dividend. (*Please turn to page* 373)

Selected Low Labor Cost Companies

	1956 Net Sales (Millions)	1956 Amount of Wages & Salaries	1956 Labor Cost as % of 1956 Sales	1956 Earnings Per Share	1st 9 Months 1956 Net Sales (Mil.)	1st 9 Months 1956 Earnings Per Share	1st 9 Months 1957 Net Sales (Mil.)	1st 9 Months 1957 Per Share Earnings	Indicated 1957 Dividend	Recent Price	Price Range 1956-57	Div. Yield
BAKING:		Average — 27%										
Continental Baking	$284.2	$ 96.4	34	$4.59	$206.9	$3.44	$226.4	$3.17	$2.00	28	36¾-26⅞	7.1%
General Mills	527.7[1]	74.6[1]	14[1]	4.88[1]	n.a.	n.a.	n.a.	n.a.	3.00	57	71¾-56	5.2
National Biscuit	410.5	134.1	33	2.96	302.8	1.90	316.3	2.27	2.20	39	40⅜-34⅝	5.6
CHEMICALS:		Average — 24%										
Allied Chemical & Dye	668.7	167.8	25	4.74	432.2	1.87	419.3	1.76	3.00	69	129¼-68½	4.3
Commercial Solvents	58.7	9.8	17	1.07	43.9	.79	46.5	.60	1.00	11	19½-10½	9.0
Dow Chemical	627.8[1]	181.6[1]	28[1]	2.25[1]	162.4[2]	.48[2]	166.3[2]	.56[2]	1.20[6]	54	82⅞-49	2.2
Hercules Powder	244.3	66.5	27	2.10	177.5	1.65	187.9	1.62	1.10	35	51½-35	3.1
Hooker Electrochemical	109.9	25.9	23	1.75	82.0	1.42	79.8	.98	1.00	25	52¼-22¾	4.0
CONTAINERS:		Average — 28%										
American Can	771.6	212.3	27	2.90	638.5	2.37	661.1	2.41	2.00	38	49⅛-37½	5.2
Continental Can	1,010.2	305.3	30	3.72	774.8	2.96	805.1	2.94	1.80	41	56½-38	4.3
DRUGS:		Average — 26%										
Abbott Laboratories	96.7	n.a.	29	2.80	75.1	2.17	83.9	2.53	1.80	44	51¾-37¼	4.0
Parke, Davis, & Co.	134.0	41.5	30	3.59	98.6	2.49	117.5	3.50	2.00	58	62¾-40¼	3.4
Schering	54.5	10.6	19	3.02	50.8	2.14	55.2	2.19	1.20	35	48¼-22½	3.4
FOOD PRODUCTS:		Average — 15%										
Corn Products	312.7	52.5	17	2.36	226.5	1.33	250.5	1.51	1.50	31	32⅜-27½	4.8
General Foods	1,042.5	123.6	12	3.61	468.5	1.99	475.7	2.02	2.00	45	50⅜-21¼	4.4
National Dairy	1,352.8	233.5	17	3.02	1,005.1	2.24	1,074.6	2.44	1.80	36	42⅝-33	5.0
MEAT PACKERS:		Average — 15%										
Armour & Co.	2,011.4[3]	304.4[3]	15[3]	3.09[3]	963.3[4]	2.34[4]	955.7[4]	.27[4]	[7]	11	2[illegible]¾-10⅜	
Swift & Co.	2,433.5[3]	n.a.	15[3]	2.36[3]	1,213.6[4]	1.86[4]	1,253.3[4]	.60[4]	2.25	28	50⅛-26¾	8.0
Wilson & Co.	608.9[3]	84.9[3]	14[3]	2.83[3]	301.1[4]	1.97[4]	313.7[4]	1.00[4]	1.00	14	16⅞-12⅝	7.1
PAPER & PULP PRODUCTS:		Average — 25%										
Container Corp.	276.0	55.6	20	1.71	208.9	1.31	192.4	1.07	1.00	17	23¾-16⅜	5.8
Crown Zellerbach	462.3	131.7	28	3.53	343.9	2.64	350.1	2.03	1.80	45	69⅞-40⅛	4.0
International Paper	969.6	239.0	25	7.05	731.4	5.48	715.5	4.38	3.00[6]	84	144½-83	3.5
Rayonier	137.8	36.8	26	2.65	106.0	2.10	89.3	.90	1.40	15	44⅞-14⅛	9.3
Scott Paper	270.3	n.a.	25	2.78	200.0	2.05	204.6	1.97	2.00	54	75½-52	3.7
PETROLEUM:		Average — 12%										
Gulf Oil	2,339.7	265.1	11	9.54	n.a.	7.22	n.a.	9.32	2.50[6]	109	152 -83⅜	2.3
Shell Oil	1,644.4	253.9	15	4.49	1,197.7	3.31	1,335.5	3.49	2.00	66	93½-56½	3.0
Sinclair Oil	1,180.1	153.6	13	5.98	874.4	4.51	940.2	4.11	3.00	48	72¾-47½	6.0
Skelly Oil	251.3	27.2	11	5.93	185.9	4.06	196.5	4.91	1.80	50	80¾-49	3.6
Socony Mobil	2,750.3	279.0	10	5.70	n.a.	4.19	n.a.	3.87	2.50	47	66 -45¼	5.3
Texas Co.	2,046.3	272.8	13	5.51	1,462.6	3.78	1,773.8	4.43	2.35[6]	60	76½-53⅛	3.8
RETAIL TRADE:		Average — 14%										
Grant (W. T.) Co.	380.9	67.1	18	3.37	160.8[5]	.40[5]	176.0[5]	.26[5]	2.00	28	45 -27¼	7.1
Montgomery Ward & Co.	1,045.7	177.5	17	2.65	467.4[5]	.88[5]	466.0[5]	.77[5]	2.25	31	47¾-30	7.2
Safeway Stores	1,989.3	n.a.	8	2.03	1,356.7	1.39	1,448.2	1.74	1.00	24	24¾-16⅞	4.1

n.a.—Not available.
[1]—Year ended May 31.
[2]—Quar. ended August 31.
[3]—Year ended October 31.
[4]—6 mos. ended April 30.
[5]—6 mos. ended July 31.
[6]—Plus stock.
[7]—Paid 10% in stock.

FOR PROFIT AND INCOME

Bonds and Stocks

If the switch to an easier-money policy recently made by the Federal Reserve System can reverse what is primarily a capital-goods recession, it will in any event take considerable time. Meanwhile, many stocks will be held down or depressed further by the impact of lower earnings and some possible dividend cuts. But the shift, signalled by the cut in rediscount rates and expected to be followed by gradual further credit-easing moves, is definitely bullish in the following respects: (1) It assures an uptrend, even though unpredictable in scope and duration, in the bond market and a consequent shrinkage in prevailing bond yields; and (2) receding bond-yield competition makes good-grade income stocks more attractive and enhances appreciation potentials, even though generally within moderate limits, in selected issues.

Beneficiaries

Stocks directly and significantly responsive to money-rate factors are mainly in such fields as utilities, baking, confectionery, installment financing, small loans, dairy products, food brands, food stores, insurance, shoes, soaps and tobacco products. However, variations among individual issues in investment quality and market potentials are wide, requiring careful discrimination. Preference should, of course, be given to income stocks which either have rising earnings – always the most decisive consideration – or reasonably assured promise of at least well-maintained 1958 earnings.

Finance Companies

Installment-finance companies are aided in two ways by easier money. First, they operate to a large extent on borrowed funds. Thus, a shrinkage in interest rates means significant savings in operating costs over a period of time. Second, as easier credit trickles down into less costly terms for customers, "on-time" buying of automobiles and other big-ticket items is facilitated, tending at least to help sustain, if not increase, the new-loan business of these companies. The leading listed stocks in this field are C. I. T. Financial and Commercial Credit. The former should earn around $4.25-$4.30 a share this year, a new peak, against $4.13

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1957	1956
Chance Vought Aircraft	Quar. Sept. 30	$1.42	$ .50
National Biscuit Co.	Quar. Sept. 30	.83	.63
Midland Steel Products	Quar. Sept. 30	1.21	.49
Philip Morris, Inc.	Quar. Sept. 30	1.22	1.08
Electric Auto-Lite	9 mos. Sept. 30	4.48	.75
Pfizer (Chas.) & Co.	9 mos. Sept. 30	2.86	2.47
Reed Roller Bit	Quar. Sept. 30	1.03	.46
Texas Co.	Quar. Sept. 30	1.42	1.26
Reynolds (R. J.) Tobacco	Quarfl Sept. 30	2.06	1.58
U. S. Steel Corp.	Quar. Sept. 30	1.70	.52

in 1956; the latter around \$5.35, also a new record, compared with \$5.26 last year. Their 1958 earnings probably will be well maintained, and might gain a bit. C. I. T. is at 42, yielding 5.7% on a secure \$2.40 dividend; Commercial Credit at 47, yielding 5.9% on a secure \$2.80 basis. Both companies earned substantially more in the moderate-recession year 1949 than in 1948; but that is no guide now, for 1949 was not any recession year for automobile sales. They gained over 38% in that year, as measured by new car registrations, whereas present indications are that 1958 sales will do well to approximate this year's.

Small-Loan Companies

This is a business which has shown good, although gradual, growth over the years, and much above-average immunity to business recessions. Despite higher costs, earnings of most companies in it are at record levels, aided by increased volume partially due to upward tendencies in amount of the average loan made. (It costs little more to service a \$400 loan than a \$200 loan.) Since the companies borrow a large portion of the money they lend, they benefit materially from lower interest rates. Although the rise in new loan business has flattened out, 1958 earnings should be about in line with this year's. The leading companies are Household Finance and Beneficial Finance. Earning power of the former is about \$2.85 a share. The highly conservative \$1.20 dividend provides a yield of only 4.1% with the stock at 29, but 5% stock dividends were voted recently and in 1956. Earnings of Beneficial are around \$1.90 a share, the dividend secure at \$1, the yield 5.5% with the stock at 18. Both companies have long records of continuous payments.

Cheaper

Among the smaller but sizable companies in this business are American Investment, with loan volume over \$300 million a year, earnings around \$1.40 a share, and a \$1 dividend. The stock yields over 6.4% at 15½. Family Finance has a loan volume approaching \$200 million, earnings around \$2.30 a share. The divident was recently raised from \$1.50 to \$1.60. At 24½ the stock yields about 6.5%. Seaboard Finance has annual volume around \$350 million, earnings around \$1.40 a share. The dividend is \$1. The stock yields about 6.2% at 16. Theoretically, these are "secondary" companies, but their growth rates have not been secondary to those of the two biggest companies. All operate in much the same way and are subject to the same influences. All have excellent records of dividend maintenance. Aside from size, the principal reason for higher yields on the three stocks cited is that their dividends are materially higher percentages of earnings than in the case of the biggest concerns.

Utilities

In anticipation of the altered money-market climate which has since begun to develop, we have heretofore recommended a number of high-yield utilities in our recent discussions here, pointing out that, because of relatively static dividends, they are in principle more directly affected by bond-yield trends than are growth utilities. Most of them show modest net gains so far; and issues of this type should be subject to moderate further appreciation over a period of time. Up to this writing, the utility list as a whole has maintained an irregular recovery trend, with a succession of higher minor tops and bottoms, for over five weeks; and has made up close to a third of the entire May-October decline. In view of satisfactory-to-good prospects for earnings and dividends, and of downward tendencies in bond yields, we think there is little doubt that basic turn has been made from the October 22 low. Among high-yield income issues, we repeat our previous recommendations of Central Illinois Public Service, now around 27¾; Cincinnati Gas & Electric, now at 25½; Duquesne Light, now at 33¾; Illinois Power, now at 26⅝; and Public Service of Indiana, now at 37¼. Because of particularly slow growth and/or rate-regulation factors, we still hold a "cool" view on some other income utilities, of which examples are Boston Edison, Consolidated Edison, Public Service Electric & Gas (in New Jersey) and New England Electric System.

Growth Utilities

On growth utilities, we lean toward middle-road choices with fair yields,, rather than toward the premium-priced, lowest-yield issues such as Florida Power & Light, Houston Lighting and Texas Utilities. Some fairly-priced, middle-road choices are American Gas & Electric, currently on a yield basis of 4.4% at 36; Central & South West, yielding 4.2% at 38; Middle South Utilities, at 33, yielding 5.2%; and Southwestern Public Service, yielding 4.8% at 31.

Other Choices

Industrial income stocks suitable for buying by conservative investors include American Chicle, Borden, Corn Products, First National Stores, May Department Stores, National Biscuit, National Dairy Products, Quaker Oats, Standard Brands, Sterling Drug and Union Tank Car.

Tobaccos

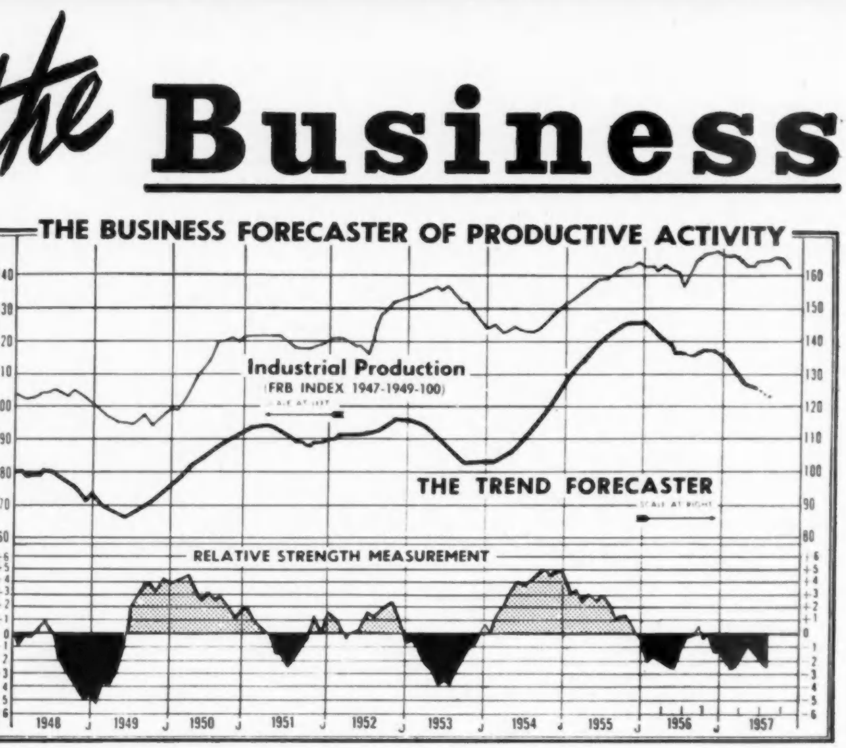
Reynolds Tobacco "B" remains the top-quality cigarette stock by a wide margin. It is still conservatively priced at 62, less than 9 times likely record 1957 earnings in the vicinity of \$7.20 or so a share, yielding 5.8% on a \$3.60 dividend which could well go to

(*Please turn to page* 376)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

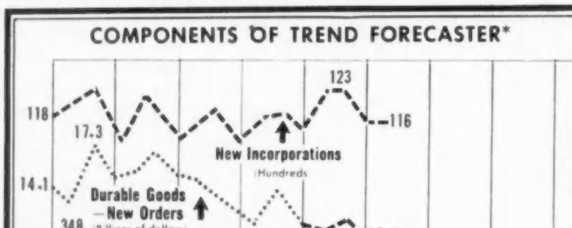
		1957	1956
Calumet & Hecla	9 mos. Sept. 30	\$ .63	\$1.46
Detroit Steel Corp.	Quar. Sept. 30	.03	.73
Kennescott Copper	Quar. Sept. 30	1.45	2.48
Robertshaw-Fulton Controls	Quar. Sept. 30	.47	.85
American Smelt. & Ref.	9 mos. Sept. 30	2.82	5.09
Kaiser Aluminum & Chem.	Quar. Sept. 30	.39	.55
Keystone Steel & Wire	Quar. Sept. 30	.61	.92
Vanadium Corp. of Amer.	Quar. Sept. 30	.69	.85
Carpenter Steel	Quar. Sept. 30	1.10	1.52
Plymouth Oil Co.	Quar. Sept. 30	.51	.72

the Business



Business Trend Forecaster*

*With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(*)—Seasonally adjusted except stock and commodity prices.
(a)—3 month moving average.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

When the *Forecaster* changes its direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

A majority of the components of the **Trend Forecaster** have established well-defined downtrends in recent months. These include new orders, now at the lowest level in more than two years, stock prices, which have dropped sharply since July, raw industrial commodity prices, which have been declining since last December, average hours worked, which reached a new low in October and non-residential construction contract awards, which have fallen sharply from their February, 1957 highs. Amid these weakening indicators there still remain some islands of stability, namely new incorporations, the index of business failure liabilities and housing starts. However, the long-term trend of two of these better-acting indicators, namely housing starts and new incorporations, can easily reverse to a downward direction if the latest figure drops even slightly. As a result the chances are that the components as a group will get worse before they get better.

The **Relative Strength Measurement** now stands at minus 2½, not far from the critical minus 3 level. Any weakening of the three components that are still holding firm would push this measure below the critical level and signify that the current downturn would reach the dimensions of a recession.

Analyst

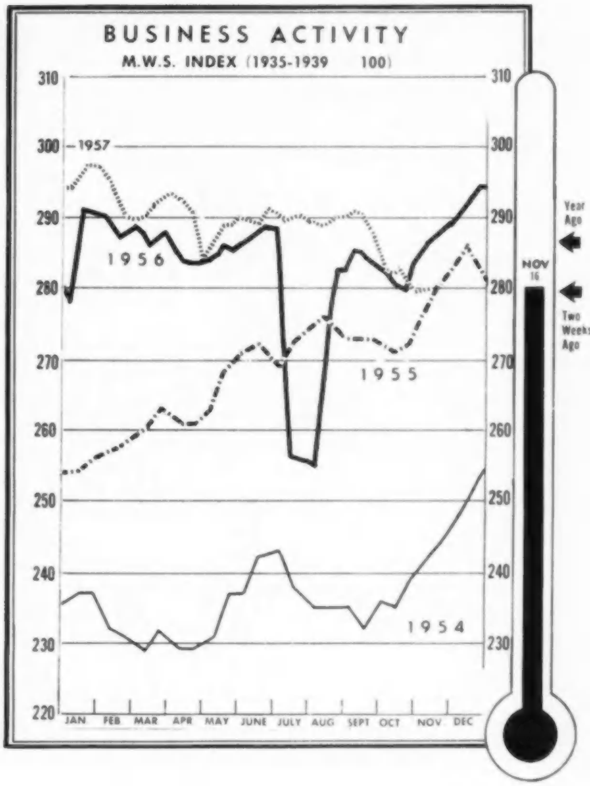
CONCLUSIONS IN BRIEF

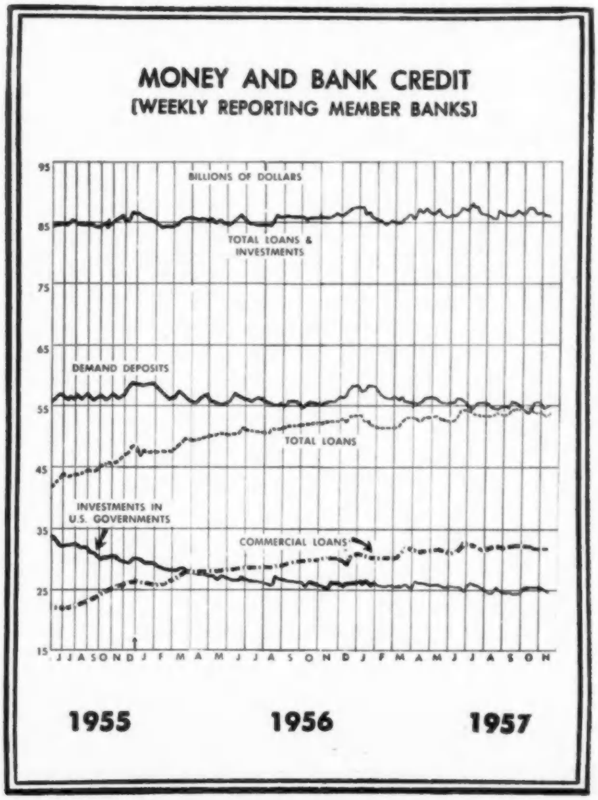
INDUSTRY — **The seasonally adjusted Reserve Board's industrial production index fell two points in October, putting it at the lowest level since last year's steel strike. Output, however, still remains above the rate of new orders, so that further cuts will be required before stability can be achieved.**

TRADE — **Retail sales continue to lag and department stores report disappointing business in November. Outlook: The volume of pre-Christmas shopping this year will be hard-put to match last year's figure.**

MONEY — **Bond markets turned buoyant in the wake of official steps to restore confidence by easing money rates and usually sedate long-term Treasury obligations have jumped as much as three points since the news came out. Expect further advance in high-grade fixed income securities in coming months, but at a much slower pace than in recent weeks.**

COMMODITIES — **Sensitive commodity prices achieved a measure of stability in late November as food prices strengthened. The consumes' price index finally ended its long climb in October, moving sidewise that month. Look for some easing in consumer prices by early 1958.**





The business recession has now proceeded far enough to prod the authorities into taking counter-action. As a result, the Federal Reserve Board has approved a one-half point cut in the discount rate, a move which seemed to contradict the valiant exhortations against inflation of only a few weeks ago. Actually, the Board in its latest action has succeeded in neatly straddling the fence. By adopting the headline-making course of lowering the discount rate, it hopes to invigorate drooping confidence and thus prevent a snowballing of the downturn. At the same time, the more important action of increasing the lending power of the banks has been held in abeyance in deference to still lurking inflationary threats. The Board, whose membership seems undecided on where the real enemy lies, is thus fighting two wars at the same time, a strategy that has few victories to its credit. Even at best, monetary policy has been a rather frail weapon with which to divert the course of the business cycle. When, as now, its effectiveness is dulled by conflicting efforts, the results are apt to be largely ineffectual.

Meanwhile the economy needs any nourishment it can get, as is evidenced by reports from the business front. The consumer, who was relied on to absorb goods at an increasing rate, has evidently decided to look twice before spending his money. Retail sales, which were lower in October, continue to lag in November and department store sales are running well under a year ago. This is not surprising in view of the downtrend in personal income, which fell in October for the second consecutive month, and the cut in weekly earnings, only partly due to the 'flu' epidemic.

(Please turn to following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Oct.	142	144	146
Durable Goods Mfr.	1947-'9-100	Oct.	155	159	163
Nondurable Goods Mfr.	1947-'9-100	Oct.	132	132	131
Mining	1947-'9-100	Oct.	127	128	131
RETAIL SALES*	$ Billions	Oct.	16.6	16.9	15.9
Durable Goods	$ Billions	Oct.	5.6	5.7	5.4
Nondurable Goods	$ Billions	Oct.	10.9	11.2	10.5
Dep't Store Sales	1947-'9-100	Oct.	121	128	122
MANUFACTURERS'					
New Orders—Total*	$ Billions	Sept.	26.8	27.3	31.1
Durable Goods	$ Billions	Sept.	12.7	13.2	17.3
Nondurable Goods	$ Billions	Sept.	14.1	14.2	13.7
Shipments*	$ Billions	Sept.	28.2	28.6	27.6
Durable Goods	$ Billions	Sept.	14.1	14.3	13.7
Nondurable Goods	$ Billions	Sept.	14.1	14.3	13.9
BUSINESS INVENTORIES, END MO.*	$ Billions	Sept.	91.4	91.3	86.9
Manufacturers'	$ Billions	Sept.	54.1	54.2	50.8
Wholesalers'	$ Billions	Sept.	12.8	12.8	12.6
Retailers'	$ Billions	Sept.	24.5	24.3	23.4
Dept. Store Stocks	1947-'9-100	Sept.	143	143	139
CONSTRUCTION TOTAL*	$ Billions	Oct.	4.5	4.6	4.3
Private	$ Billions	Oct.	3.1	3.1	3.0
Residential	$ Billions	Oct.	1.5	1.6	1.6
All Other	$ Billions	Oct.	1.6	1.5	1.4
Housing Starts*—a	Thousands	Oct.	1,000	990	1,195
Contract Awards, Residential—b	$ Millions	Sept.	1,151	1,284	1,047
All Other—b	$ Millions	Sept.	1,474	1,534	1,528
EMPLOYMENT					
Total Civilian	Millions	Oct.	66.0	65.7	66.0
Non-Farm	Millions	Oct.	53.1	53.1	53.0
Government	Millions	Oct.	7.5	7.4	7.3
Trade	Millions	Oct.	11.7	11.6	11.5
Factory	Millions	Oct.	12.9	13.0	13.5
Hours Worked	Hours	Oct.	39.5	40.0	40.7
Hourly Earnings	Dollars	Oct.	2.08	2.08	2.02
Weekly Earnings	Dollars	Oct.	82.16	83.20	82.21
PERSONAL INCOME*	$ Billions	Oct.	346	347	334
Wages & Salaries	$ Billions	Oct.	240	242	232
Proprietors' Incomes	$ Billions	Oct.	51	51	51
Interest & Dividends	$ Billions	Oct.	32	32	30
Transfer Payments	$ Billions	Oct.	22	21	19
Farm Income	$ Billions	Oct.	15	15	16
CONSUMER PRICES	1947-'9-100	Sept.	121.1	121.0	117.1
Food	1947-'9-100	Sept.	117.0	117.9	113.1
Clothing	1947-'9-100	Sept.	107.3	106.6	106.5
Housing	1947-'9-100	Sept.	126.3	125.7	122.5
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Sept.	106.2	106.8	106.1
Bank Debits*—g	$ Billions	Sept.	81.3	83.6	73.7
Business Loans Outstanding—c	$ Billions	Sept.	32.4	32.6	29.7
Instalment Credit Extended*	$ Billions	Sept.	3.6	3.6	3.2
Instalment Credit Repaid*	$ Billions	Sept.	3.4	3.3	3.1
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Aug.	5.1	3.1	5.0
Budget Expenditures	$ Billions	Aug.	5.9	6.3	5.9
Defense Expenditures	$ Billions	Aug.	3.9	3.6	3.5
Surplus (Def) cum from 7/1	$ Billions	Aug.	(4.1)	(3.3)	(3.0)

PRESENT POSITION AND OUTLOOK

More volatile indicators, such as freight car loading, continue to run far below a year ago and even industrial production has finally succumbed, falling two points in October.

Even supposed elements of strength are not coming up to expectations. State and local spending, which some analysts were slating for a continuation of the recent 9% annual rise, may not be as buoyant as was hoped. The State of Connecticut has already announced a 10% cut in expenditures because of a drop in receipts and New York State, among others, is contemplating retrenchment.

In the present situation, only the prospect of higher defense spending remains as one of the likelier sources of support for the economy in 1958. At this juncture, however, it is still impossible to determine whether any substantial increase in Federal outlays will emerge from such imponderables as an ailing executive, political and public pressures and Russian intransigeance, all impinging on the genuine needs of defense.

* * *

FADING FREIGHT CAR LOADINGS—The nations' railroads are really feeling the pinch of business contraction. Freight car loadings, always a sensitive indicator, are currently running about 15% under a year ago and at least 30% below the seasonally adjusted peak, reached early in 1956. The decline has affected all types of shipments, with miscellaneous loadings, which reflect movement of manufactured goods, now more than 12% below the corresponding 1956 period. The decline cannot be brushed off as resulting from diversion to the roads' main competitors, the trucks, for the latter report no important tonnage gains. **Clearly, the downturn in loadings reflects the slower pace of general business in recent months.**

* * *

FAST-MOVING AUTOS—The high pace of auto sales this Fall may not be as promising as it seems. What's happened is that dealers have been cleaning out their large stocks of 1957 models at big price concessions, attracting bargain hunters who are well aware of the record price tags on the 1958 models. All in all, then, recent sales contain a good deal of borrowing from next year's business. In the face of record consumer debt and low trade-in allowances for cars purchased some three years ago and now finally approaching the fully-paid for stage, the auto industry in coming months may have trouble in

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1957 III Quarter	1957 II Quarter	1957 Quarter	1956 III Quarter
GROSS NATIONAL PRODUCT	439.0(e)	434.3	429.1	416.7
Personal Consumption	283.2(e)	278.9	276.7	268.6
Private Domestic Invest.	65.5(e)	65.0	62.7	65.5
Net Foreign Investment	3.2(e)	3.5	4.1	2.0
Government Purchases	87.2(e)	86.9	85.6	80.6
Federal	50.8(e)	51.1	50.3	47.2
State & Local	36.4(e)	35.8	35.3	33.0
PERSONAL INCOME	346.5(e)	342.4	337.7	328.7
Tax & Nontax Payments	43.5(e)	42.9	42.2	39.8
Disposable Income	303.0(e)	299.5	295.5	288.8
Consumption Expenditures	283.2(e)	278.9	276.7	268.6
Personal Saving—d	19.8(e)	20.6	18.9	20.3
CORPORATE PRE-TAX PROFITS*		42.0	43.9	40.8
Corporate Taxes		27.4	22.4	20.8
Corporate Net Profit		20.5	21.5	20.0
Dividend Payments		12.5	12.1	12.1
Retained Earnings		8.0	9.1	7.9
PLANT & EQUIPMENT OUTLAYS	37.2(e)	37.0	36.9	35.9

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Nov. 16	280.1	279.7	286.5
MWS Index—per capita*	1935-'9-100	Nov. 16	211.3	211.0	220.7
Steel Production	% of Capacity	Nov. 23	76.8	77.7	100.1
Auto and Truck Production	Thousands	Nov. 23	186	173	147
Paperboard Production	Thousand Tons	Nov. 23	296	290	260
Paperboard New Orders	Thousand Tons	Nov. 23	251	241	202
Electric Power Output*	1947-'49-100	Nov. 16	226.1	227.9	218.8
Freight Carloadings	Thousand Cars	Nov. 16	647	675	764
Engineering Constr. Awards	$ Millions	Nov. 21	332	373	358
Department Store Sales	1947-'9-100	Nov. 16	143	136	151
Demand Deposits—c	$ Billions	Nov. 13	55.0	54.8	55.9
Business Failures	Number	Nov. 16	306	266	240

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

PRESENT POSITION AND OUTLOOK

matching year-ago sales figures.

* * *

PRODUCTION ROUNDUP—The October decline in industrial output was concentrated in the durable goods sector which suffered a 2½% cut, bringing that sector to a level 5% under a year ago. Production of nondurables was unchanged in October and remained at close to peak levels while mineral output was down less than 1%.

Among producers of durables, weakness was widespread, encompassing almost all branches of industry. Especially weak were primary metals and machinery, each off 4%. In the latter category, electrical machinery, which had been more resistant to decline in previous months, fell just as sharply as other types of machinery. The index of auto output fell by 8.5% in October as an early model change-over threw the seasonal adjustment factors out of gear. Auto output has risen sharply in November as assembly lines rush to supply dealers with new models, but this will have little effect on the production index, as auto output carries a weight of only 1.5% of the total. **In fact, over-all output is due for further downward readjustment in coming months as producers generally move to cut output back to the level of incoming orders.**

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1957 Range High	1957 Range Low	1957 Nov. 15	1957 Nov. 22
300 Combined Average	346.6	279.6	280.8	282.8
4 Agricultural Implements	282.4	203.6	209.1	206.3
3 Air Cond. ('53 Cl.—100)	122.8	82.7	86.1	85.0
9 Aircraft ('27 Cl.—100)	1388.8	882.6	1039.2	1024.9
7 Airlines ('27 Cl.—100)	1022.5	581.5	621.6	641.6
4 Aluminum ('53 Cl.—100)	464.5	274.5	278.7	282.9
6 Amusements	172.6	123.5	125.0	128.0
9 Automobile Accessories	384.4	309.6	309.6	309.6
5 Automobiles	54.3	40.5	41.4	41.4
4 Baking ('26 Cl.—100)	29.7	26.3	27.6	27.6
3 Business Machines	1285.3	884.3	894.5	935.6
6 Chemicals	652.3	496.7	508.6	526.6
4 Coal Mining	25.1	16.8	17.5	17.5
4 Communications	106.0	83.1	85.0	84.0
9 Construction	126.8	100.7	104.4	105.6
7 Containers	799.9	656.5	664.0	671.6
7 Copper Mining	307.6	185.8	198.0	191.9
2 Dairy Products	112.4	103.8	111.3	111.3
5 Department Stores	89.2	78.4	80.9	80.9
5 Drugs-Eth. ('53 Cl.—100)	259.2	175.2	230.0	235.4
6 Elec. Eqp. ('53 Cl.—100)	244.4	187.8	194.6	201.4
2 Finance Companies	584.5	525.0	536.2	552.3
6 Food Brands	280.2	239.8	247.8	247.8
3 Food Stores	183.9	153.8	168.9	173.9

(Nov. 14, 1936 Cl.—100)	1957 Range High	1957 Range Low	1957 Nov. 15	1957 Nov. 22
100 High Priced Stocks	236.9	191.7	192.5	193.9
100 Low Priced Stocks	415.9	321.8	323.5	326.0
4 Gold Mining	726.2	561.2	567.8	561.2L
4 Investment Trusts	184.5	142.4	147.2	145.6
3 Liquor ('27 Cl.—100)	1094.5	855.7	875.6	895.5
9 Machinery	523.4	364.3	364.3	369.4
3 Mail Order	174.6	142.1	143.8	147.2
4 Meat Packing	142.6	103.5	104.9	111.8
5 Metal Fabr. ('53 Cl.—100)	198.3	146.8	150.6	146.8L
10 Metals, Miscellaneous	420.9	291.4	299.5	295.4
4 Paper	1060.1	789.9	821.0	841.8
22 Petroleum	914.4	667.3	667.3	683.8
21 Public Utilities	263.6	236.5	239.0	243.9
7 Railroad Equipment	91.4	62.6	62.6	62.6
20 Railroads	72.7	44.5	45.9	44.5L
3 Soft Drinks	509.8	432.7	445.5	449.8
12 Steel & Iron	393.0	275.1	279.0	275.1
4 Sugar	116.9	96.9	97.9	96.9L
2 Sulphur	926.7	571.6	571.6	571.6
11 Television ('27 Cl.—100)	36.0	27.2	29.2	29.2
5 Textiles	149.9	102.3	103.7	107.9
3 Tires & Rubber	197.6	154.7	154.7	160.3
5 Tobacco	103.2	87.0	100.7	103.2H
2 Variety Stores	237.7	232.4	235.0	232.4L
15 Unclassif'd ('49 Cl.—100)	168.9	140.2	141.8	141.8

H—New High for 1957. L—New Low for 1957.

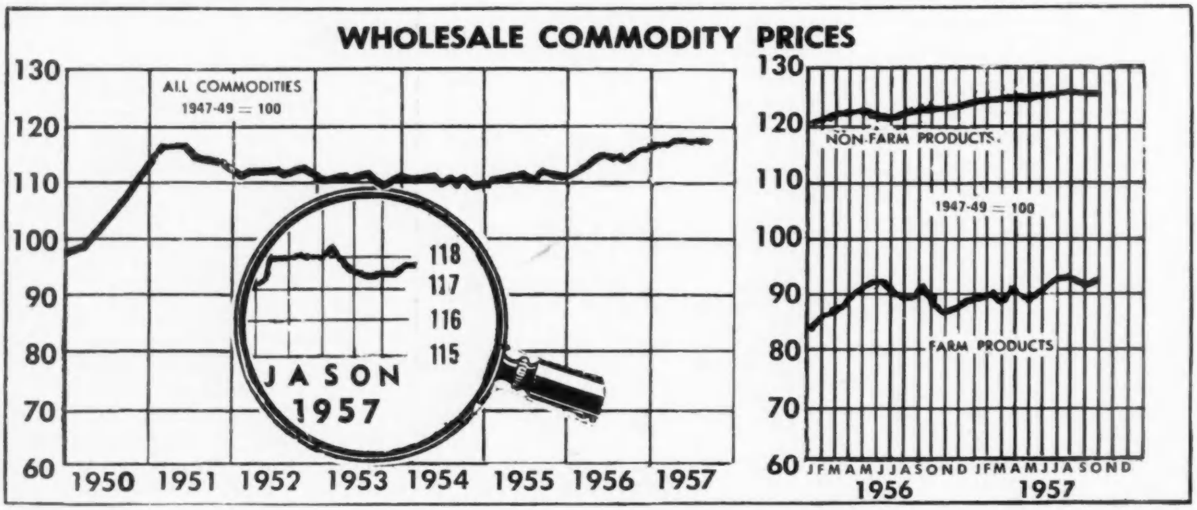
Trend of Commodities

SPOT MARKETS — Advancing food prices again bolstered the Bureau of Labor Statistics' index of 22 commodities which rose 0.2% in the two weeks ending November 22. While foods added 1.3% during the period, raw industrial materials fell 0.2%, mainly due to lower metal quotations. This component lost 1.3% as businessmen worked to reduce inventories.

The cost of living may at last be nearing the end of its long upward jaunt. The Labor Department's consumer price index moved sidewise from mid-September to mid-October, the first time in 13 months that this index has failed to advance. Although some slight gain for the index may be chalked up in November as the result of higher prices for new cars, the outlook is for stability thereafter and possibly some easing of the cost of living in early 1958.

FUTURES MARKETS — Most commodity futures markets were lower in the two weeks ending November 22 but the Dow-Jones Commodity Futures Index nevertheless registered an advance for the period, reflecting gains in cocoa, hides, rubber and wool tops. Lower prices were seen for grains, soybeans, lard, cottonseed oil, coffee, copper and tin.

March wheat lost ¾ cent in the period under review to close at 224¼. Selling was attributed to the favorable progress of the new crop and the Secretary of Agriculture's statement that it would be difficult to expand wheat exports. The government's weekly grain report, issued in mid-month, confirmed private reports of the good condition of the new winter wheat crop. Nevertheless, prices, which are below loan levels, should be helped by the continued movement of wheat into the loan.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Nov. 19	117.8	117.5	115.9	60.2
Farm Products	Nov. 19	92.2	90.7	87.9	51.0
Non-Farm Products	Nov. 19	125.6	125.6	124.2	67.0
22 Basic Commodities	Nov. 22	84.5	84.3	93.8	53.0
9 Foods	Nov. 22	84.6	83.5	84.1	46.5
13 Raw Ind'l. Materials	Nov. 22	84.3	84.5	101.1	58.3
5 Metals	Nov. 22	87.6	89.0	126.2	54.6
4 Textiles	Nov. 22	79.7	79.4	85.2	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS

1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

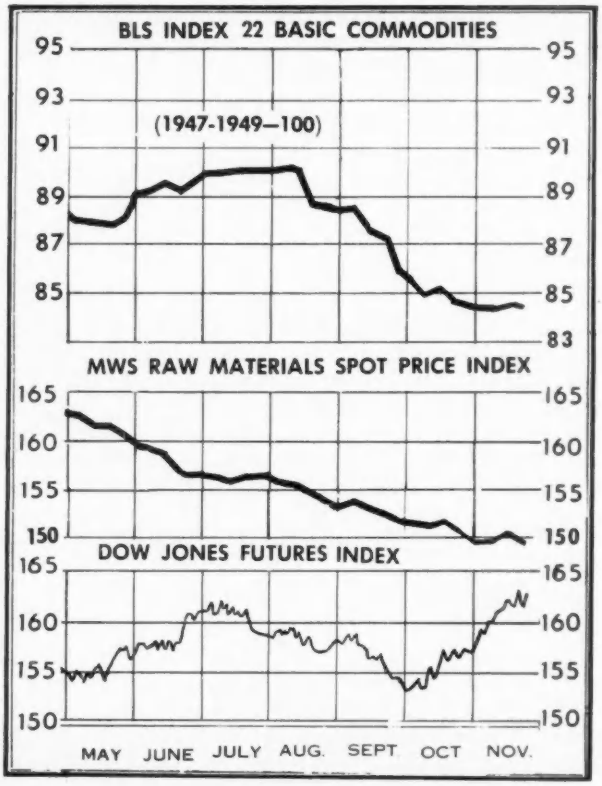
	1957	1956	1953	1951	1945	1941
High of Year	166.3	169.8	162.2	215.4	98.9	85.7
Low of Year	149.5	163.1	147.9	176.4	96.7	74.3
Close of Year		165.5	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX

12 COMMODITIES

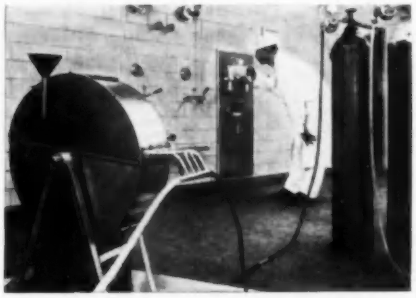
AVERAGE 1924-1926—100

	1957	1956	1953	1951	1945	1941
High of Year	163.4	166.7	166.5	214.5	106.4	84.6
Low of Year	153.8	163.1	147.9	176.4	96.7	74.3
Close of Year		162.7	166.8	189.4	105.9	84.1



Only STEEL can do so many jobs so well

Walls Of Steel—Tall Or Small. The big picture shows the Socony Mobil Building at 42nd and Lexington in New York City. It's the largest metal-walled office building in the world, and is completely sheathed with Stainless Steel panels. They used Stainless Steel because of its lasting beauty, durability, corrosion resistance, and low maintenance. The picture below shows an all-steel prefabricated school. The steel skeleton is strong and safe, and the porcelain-enameled steel wall panels are colorful and easy to care for.



Artificial Heart-Lung Machine. This Stainless Steel machine removes blood from the body, replenishes it with oxygen, and pumps it back into the body—thereby functioning as heart *and* lungs. With it, doctors can actually stop the heart and repair it, since the machine does the heart's job. The device is made completely from Stainless Steel because it is the most easily cleaned of all metals. Stainless Steel will not corrode, and it will not contaminate or alter the structure of the blood in any way.

127 Different Parts! This quiet, reliable alarm clock is a mass-production miracle. 127 different parts work together so that you can be sure of getting where you want to be on time. Most of the parts are made from steel because steel is strong, wear-resistant, and easy to fabricate.

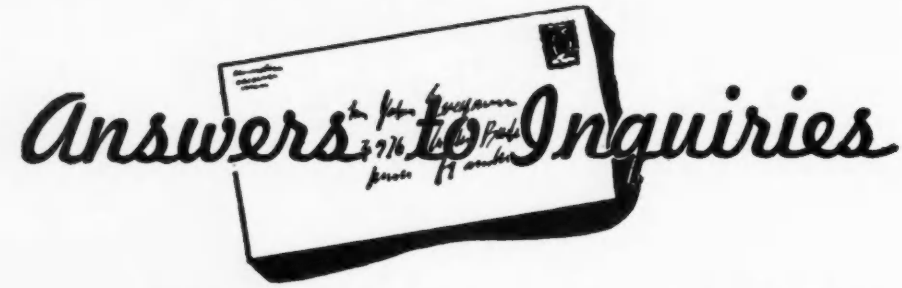
UNITED STATES STEEL

USS

American Bridge . . . American Steel & Wire and Cyclone Fence . . . Columbia-Geneva Steel
Consolidated Western Steel . . . Gerrard Steel Strapping . . . National Tube . . . Oil Well Supply
Tennessee Coal & Iron . . . United States Steel Homes . . . United States Steel Products
United States Steel Supply . . . **Divisions of United States Steel Corporation, Pittsburgh**
Union Supply Company · United States Steel Export Company · Universal Atlas Cement Company

Watch the **United States Steel Hour** on TV every other Wednesday (10 p.m. Eastern time).

Answers to Inquiries



The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Johnson & Johnson

"I have long been a subscriber to your magazine and would appreciate receiving data on Johnson & Johnson."

R. D., Newark, N. J.

Johnson & Johnson is the world's largest producer of surgical dressings and related items. A long list of items are manufactured, including bandages, surgical gauze and plaster, first aid kits and supplies, sanitary napkins, dental floss, other dental supplies, baby powder, cream, oil shampoo and lotion, and dairy and industrial filter media.

Consolidated domestic sales for the first nine months of 1957, the highest in the company's history, exceeded those for the nine months of 1956 by some 9%.

Net earnings after taxes for the first quarter of 1957 were $1.59 per share, for the second quarter were $1.49 and the third quarter $2.03, making a total of $5.11 for the first 9 months of this year. This compares with $5.09 per share in the same period last year.

Working capital increased approximately $9 million since the beginning of the year. A major portion of this improvement is represented in cash and temporary investments. While a portion of the increase is attributable to the seasonal pattern of sales and inventories, some progress has been made toward the goal of a cash position approximately equalling one month's sales.

Consolidated foreign net earnings for the first nine months of 1957 were $2,914,000, compared with $2,015,000 for the same period of 1956. Cash dividends received from foreign subsidiaries were $850,000, compared with $654,000 for the first nine months of 1956. During the third quarter, a substantial portion of dividends was received from foreign subsidiaries which would normally have been remitted during the fourth quarter.

The Board of Directors on October 24, 1957, declared a regular quarterly dividend of 40 cents per share on the common stock payable December 11, 1957 and an extra of 35 cents per share payable January 10, 1958, to stockholders of record at the close of business on December 20, 1957. Dividends have been paid consecutively since 1905. Dividend payouts have averaged one third of earnings in the five years through 1956.

While dividend yield is small, in view of favorable prospects over the longer team, present holdings may be retained.

Maytag Company

"Please send recent information concerning Maytag Co. Enclosed is a stamped self-addressed envelope."

E. R., Emporia, Kansas

Maytag Co. is one of the longest established and largest washing machine makers and its line includes other appliances.

An upturn in sales over the previous quarter, although still below last year's record figures, was shown in the third quarter financial report issued by the Maytag Company.

Net sales of Maytag and domestic subsidiaries totalled $25,541,277 during the third quarter of this year, 15% above the $22,211,240 reported in the second quarter and 6% below the $27,221,645 in sales during the third quarter of last year.

For the first nine months of 1957, net sales totalled $73,530,034. This is 14% below the record $85,232,009 in sales during the first three quarters of last year, although higher than any other corresponding period.

Net income during the quarter just passed totalled $1,906,145, highest for any quarter this year, compared to $1,943,878 during the third quarter last year. After payment of preference dividends, net income during the past quarter totalled $1.10 per share of common stock, compared to $1.12 during the third quarter of 1956.

For the first nine months of this year, net income totalled $4,742,736, or $2.69 per common share, compared to $6,104,827, or $3.53 a common share, for the same period a year ago.

Regular 50 cent quarterly dividends were paid on the common stock during each of the three quarters.

Labor costs will increase materially during the fourth quarter. A contract negotiated late last year provided for an automatic wage increase and other employee benefits.

Competition in the appliance field continues intense. END


THE DAY THE SKY FELL DOWN
Jim Reeves was manning one of Mobil's drilling-rig-to-shore radios in Sabine Pass, Texas, when Hurricane Audrey barreled in. He flashed orders to the men on the Gulf: "Lash down equipment! Abandon drilling platforms!"
Then Reeves could have left. He didn't. He stayed to help others. All night long, as the hurricane mounted and rising waters threatened to maroon him, he carried or led dazed and frightened youngsters and adults to safety.
Just as he was about to call it a night, he got a call for help from a grandmother cut off with her two small granddaughters. Floodwaters already swirled above floor level of their one-story home. Screaming winds hurled heavy branches and bits of debris through the air. Power lines snapped like whips.
Reeves plunged into water up to his waist to fight his way to the stricken house. He tied the little girls together. Then, cradling them in one arm, and supporting the grandmother with the other, he struggled back to safety.
Jim Reeves typified oilmen throughout that storm-swept area. And the story has been the same before, in tornadoes, flash-floods and blizzards.
Knowing how to battle disaster gets built into oilmen. In finding, producing and moving oil, they learn how to cope with nature in her trickiest moods.
And, they have the heart.
Mobil
SOCONY MOBIL OIL CO., INC.
Leader in lubrication for 91 years

Keeping Abreast of Corporate Developments

American Cyanamid Co. plans to expand its plant at Mobile, Ala., to include facilities for making wax sizes, coatings applied to paper to make it liquid resistant. The cost of the proposed expansion and quantity of new output was not disclosed.

The Mobile installation currently produces alum, rosin size and sulfuric acid and is one of Cyanamid's 24 plants making chemical specialties for the paper industry.

The expansion at Mobile will include a new two-story building, enlarged warehouse facilities and an expanded laboratory operation, according to the company.

American Cyanamid's other products include pharmaceuticals, organic and inorganic dyestuffs and pigments, biologicals and antibiotics, explosives, insecticides and fumigants.

American Machine & Foundry Co. through its J. B. Beaird Co., Inc., subsidiary, will enter the Canadian oil industry with a more than $1.5 million order for packaged compressor plants for Goliad, Ltd., and Texaco Exploration Co.

The new 660 horsepower packaged compressor plants will be installed in the Pembina Field, Alberta, Canada. Beaird's Canadian affiliate, Beaird International, Inc., will supervise the project. The company will sub-contract with Canadian firms for the fabrication work on the new order. Engineering work will be carried out in the company's engineering department in Shreveport, La.

The J. B. Beaird Co. also announced that it plans to open a sales and service office in Calgary to handle expanding service to the Canadian oil and gas industry.

Dow Chemical Co. has acquired the government-owned 45,000-ton magnesium plant at Velasco, Texas, for $20,700,000. One-third is to be paid immediately and the balance in six years.

Chas. Pfizer & Co. of Brooklyn, N. Y. plans to build a new research laboratory adjacent to its plant making antibiotic drugs and chemicals on the Thames River, in Groton, Conn. The company declined to state the cost of the new facility.

Part of the research carried on in Brooklyn and in Maywood, N. J., will be transferred to the new building which should be completed late in 1959. John E. McKeen, president of Pfizer, said the company is spending about $9,000,000 this year on research.

Firestone Tire & Rubber Co. has purchased a synthetic rubber pilot plant and laboratory owned by the government since 1944, James E. Trainor, executive vice president announced. Cost of the purchase was not disclosed.

The facility, according to the company, will be integrated into Firestone's synthetic rubber operations.

United States Rubber Co. will begin domestic production of tires for foreign cars imported into this country, in December, W. F. Brown, general sales manager, U. S. Tires division announced.

The tires will be tubeless, ranging from 13 to 16 inches in diameter and will fit the rims of 85% of the car makes being imported. These makes account for 95% of the foreign car replacement tire market. Production will be at the company's tire plants.

At the present time, the rubber company is supplying tires on a limited basis to car dealers selling the English Ford, Vauxhall and Opel and the Swedish Volvo, from stocks sent here by its British subsidiary, the North British Rubber Co., Ltd.

The tires manufactured here will be marketed by U. S. Rubber's independent tire dealers. This year, it is estimated, foreign car sales will total 200,000, as against 98,000 in 1956.

Sylvania Electric Products Inc. has developed a photographer's flash bulb about the size of a thimble and the company said it can produce the same illumination as current bulbs four times as large.

The new bulb will come in clear and blue-tinted varieties, the company said and will be priced the same as its larger Press 25 bulb in current use.

The new bulb, according to a company official, will fit lighting requirements of both the amateur and professional photographer. Bulb production, he said, will begin in the first quarter of 1958.

W H A T   M A K E S   C H E S S I E   R A

Since 1933 Chessie has become one of America's best-loved trademarks. Celebrating the Silver Anniversary of the Chessie Calendar, the 1958 C&O calendar will carry this happy birthday scene in full color. If you would like a copy (as long as the supply lasts), just write us.

IE RAILROAD GROW?

One of a series telling what Chesapeake and Ohio is doing to make this a bigger, better railroad.

Something new for Chessie

Wherever you look along Chesapeake and Ohio's 5,100 mile system, big things are happening.

Newest for Chessie is the world's most modern bulk cargo unloading facility at Newport News, Virginia, just completed to speed the growing flow of import ores. On an average day this year, eleven hundred coal cars are emptied at Newport News into ships bound for coal-hungry Europe. Now, many of these are returning inland loaded with ore for America's steel and chemical industries.

Another big development is C&O's new Car Location Information Center—CLIC for short—which sorts and relays to all C&O traffic offices the system-wide teletype reports shippers need to maintain efficient production and merchandising schedules.

New automatic yards and signal systems help to speed freight on almost-passenger schedules. And mechanized track crews ceaselessly groom the roadway on a regular maintenance program that keeps Chesapeake and Ohio practically a new railroad.

New factories are sprouting in cornfields. New coal mines are opening up. And so that shippers will have them when they need them, thousands of new freight cars are being added to its present fleet of 95,300 as Chessie's railroad keeps growing and going.

Think of these things when you are routing a shipment or locating a new plant. They add up to fast, efficient transportation service and a railroad which keeps its thinking in tune with the future.

The three towers of the huge new $8½ million ore pier at Newport News can unload a 10,000 ton ship between breakfast and lunchtime.

best-
ry of
carry
would
e us.

Chesapeake and Ohio Railway

3807 TERMINAL TOWER, CLEVELAND 1, OHIO

India . . . With Both Feet Planted In Mid Air

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of restlessness and class antagonism. Nor are they confined to the Communist-administered state of Kerala. Nehru's appeals for a cessation of gold smuggling and gold hoarding once would have elicited at least a sympathetic response. But now he is met with the stony rejoinder that he should seek the gold in the houses of the rich. To a large extent, this disaffection arises from popular impatience for more tangible evidence of real economic gains, particularly in the field of consumer goods. The Second Five-Year Plan, more than the First, channels the bulk of the investment into basic industries which, while indispensable to future economic progress and to the achievement of higher living standards, employ fewer workers than manufacturing industries and do not yield those immediate, visible benefits which would satisfy India's insistent hunger for more of the world's material goods. As a result, unemployment and discontent will undoubtedly rise to greater heights before present sacrifices can be translated into material rewards.

Communists Strong In Urban Areas

The Planning Minister's recent announcement that the goals of the Second Five-Year Plan can now be achieved only in terms of current prices has provided powerful ammunition for the proponents of an authoritarian approach to economic development. For this would mean a 12% cut in real investment over the five-year period and a consequent smaller rise in real national income. It would also mean that per capita national income cannot be increased from the current $50 to $60 per year by 1961.

This bleak prospect already has strengthened the Communist position in some of India's most populous areas. Communists have become more active in the steel plants and in the factory districts of industrial South Bihar. They are also extending their activities into North Bihar where they are expected to make political capital from New Delhi's announcement that a major power project there will have to be postponed because India has been unable to raise the needed $10 million in foreign exchange. Power-starved Madras and South India, heavily populated and with a high incidence of unemployment, also may have to postpone scores of new industries, planned or already underway, because of downward revision of the Plan's targets may eliminate some indispensable power projects.

The forced reduction in the minimum targets of the Second Five-Year Plan would cut some of the muscle from the Plan and possibly come dangerously close to the nation's economic bone. However, most observers in India claim that, even in this case, Nehru's hold on India's teeming millions would not be seriously impaired. With him, many Indians claim, the ruling Congress party could still carry the next general elections in 1962. But there is considerable doubt as to the party's ability to do so without him. India's Communists, in and out of Kerala, seem to share this view inasmuch as they do not appear to be making any preparations for a major bid for power in the next elections. Nevertheless, they are building for the future, mostly on the strength of Russia's recent emergence as an economic benefactor.

"Gifts" From Moscow

Moscow recently raised last year's offer of 500 million rubles on easy credit terms to 600 million. Most of these funds will be used to create facilities for the manufacture of mining machinery and other capital goods in India. Other projects will include an optical glass plant as well as facilities for making pharmaceuticals, dyestuffs and intermediates. The Russians also have provided a low-cost loan of $290 million to finance the construction of the Bhilai steel plant. In all, Russia in the past three years has extended more than $1.2 billion in aid to India and to other underdeveloped nations in the Middle East and Asia. Most of this assistance has been in the form of long-term, low-interest credits. Technological aid and substantial purchases of Indian products, such as pepper, are other features of the Soviet overture.

Wooing U.S. Funds

It is against this background that India is now seeking grants and loans from the United States, the World Bank, the Export-Import Bank and from private sources here and in Europe. New Delhi's fondest hope is that the United States may respond to its request for a low-cost government-to-government loan of about $500 million. From private financial and business firms here and abroad, India hopes to obtain deferred payment arrangements, long-term credits and possibly joint participation by American and European companies in Indian business ventures. New Delhi's recent decision to permit this country's Johnson & Johnson Co. to retain 75% control of a joint American-Indian company represents a sharp departure from previous practice and is possibly designed to create a more favorable climate for U.S. investments in India. However, the Investment Guarantee agreement signed recently in Washington by India and the United States, while it guarantees repatriation of capital and profits, does not offer any protection against the possibility of nationalization. And it is precisely the fear of nationalization—along with the potent lure of more profitable investment opportunities in Canada, Europe and Latin America—that has discouraged the U.S. investor.

Companies Responding

Nevertheless, some American firms have indicated a willingness to brave India's investment climate, either by expanding present facilities or through the construction of new plants. General Motors has been considering participating with India's Hindustan Motors in a truck assembly operation. The Godfrey L. Cabot Co. of Boston may join with Indian textile interests in setting up a $10 million carbon black plant. Reynolds Metals is studying the possibility of participating in an Indian aluminum project. In addition, many U.S. companies already operating in India are contemplating an expansion of their facilities there.

These include Otis Elevator, Firestone, Dayton Rubber, and Studebaker. These developments are certainly a source of encouragement to India. But in no way do they suggest that the flow of private capital from the U.S. and Europe will reach the much larger volume needed to prevent a serious slowdown in the private sector of India's economy. Meanwhile, such old India hands as Caltex are awaiting additional evidence that the new inducements are not, as in the past, isolated episodes but a genuine expression of a lasting move in the direction of a more friendly attitude toward foreign capital.

Financial Aid Outlook

The outlook for aid from governmental sources is no more encouraging. At best, New Delhi can count on about $100 million from Washington, including a possible $30 million from the Export-Import Bank. This is the sum and substance of the funds available to the Administration at present. Only Congressional appropriations can provide the other $400 million that India seeks. And the outlook for further Congressional largesse is not particularly bright, although it now seems certain that the Administration will ask Congress to authorize at least a $300-million low-cost loan to India at the next session.

As to other possible sources or foreign exchange, the World Bank already has embarked on a program of assistance to the Indian railway system whose total cost may eventually reach $700 million of which $340 million have been disbursed so far. The Bank is not likely to approve any significant expansion in its total contributions to India, particularly in view of the growing pressure on its resources from other petitioners. Elsewhere, India can be expected to draw on her sterling reserves, now equal to about $630 million. About $300 million of this will be used for purchases outside the sterling area, while the balance will be spent for industrial goods produced by the Commonwealth nations. Thus, the impact of this withdrawal on the Pound Sterling will not be as severe as it might be if India were to spend all of her reserves outside the Sterling area. West Germany, through her export bank, already has extended $190 million worth of credits to New Delhi on three-year terms. The prospects for additional large loans from Bonn are very slim, although Germany can be of indirect assistance by extending loans to the World Bank. An extension of the terms of current loans also would be welcomed in India.

Foreign Exchange Muddle Will Retard Growth

Thus, there will be a mild acceleration of activity in the private sector of the Indian economy in the next few years. Private investments from Canada, France, Italy, Holland, England, Germany, Japan and the United States will contribute to this trend. However, these investments may not be enough to offset the slack in industrial activity which may result from the inabil-

(*Please turn to page* 368)

ity of India's private business to purchase equipment and materials abroad because of the import slashes that will be made in order to conserve foreign exchange. Thus, India's private sector is likely to bear the brunt of New Delhi's downward revision of the Second Five-Year Plan.

From the United States Government India will obtain an initial loan of about $100 million in addition to further aid under Public Law 480. Washington also may provide further help by bartering U.S. surplus farm goods for Indian commodities and by extending supplies on credit under the U.S. Commodity Credit Corporation program. Finance Minister Krishnamachari also is said to be considering floating a loan on the New York market although he has recently been quoted as saying that, until he can determine the exact volume of foreign exchange that will become available, this expedient "will have to wait".

These, then, are the rough outlines of India's needs and prospects. Present commitments total about $2.7 million. Unless there is a sudden and dramatic reversal of India's fortunes, the response to India's appeal for funds will fall considerably short of her needs and expectations. Whether the consequent cut in India's expansion plans will seriously intrude on her attempt to raise the standards of her people in a democratic manner remains to be seen. An omen of what is to come is perhaps contained in the demand of India's Communist party for Krishnamachari's resignation. The party contends that the Finance Minister's recent statements to the New York Times were "calculated to bring about a reversal of India's foreign policy". Krishnamachari is reported to have envisaged the possibility of Russian and China intervening in India when the Indian Communists were ready for revolution.

The ruling Congress party's reaction to this is one of unconcealed glee. One leading party member is said to have stated: "Krishnamachari's recent activities will drive new nails into the Communist's coffin. It will make the Finance Minister even more solid with Nehru". But will his failure make Nehru more solid with his people? END

Our Answer to the Many Inquiries on the New York Central-Pennsylvania Merger

(*Continued from page* 342)

merger talk. Only a few weeks prior to the Central-Pennsy announcement, another rail president had called for an Eastern area rail network. Many months ago the president of a healthy, large, midwestern line predicted the appearance of 25 major rail networks across the nation within a decade.

Going on back through the 1930's, 20's and beyond, one stumbles across all sorts of studies, official and otherwise, calling for major consolidations. These older studies lie dusty in archives but carry documentation, and in some cases tacit government approval, beyond anything yet attached to the Central-Pennsy pronouncement.

Investment Status

To sum up, the smart investor will assess the importance and inner significance of the merger announcement by watching not the merger hand that is faster than the eye, but such items as "gross carried to net," how far the Symes purchase plan gets in Congress, and market fluctuations as the two roads get ready for stockholder meetings in 1958.

He should also watch for adverse effects of the merger talk. For example, if the rest of the industry feels a general unfavorable reaction from statistics influenced by the biggest Eastern carriers, and decides to issue reports exclusive of the heavily urbanized regions.

The whole matter adds up to a need for the investor to play it by ear, month by month, day by day, as carloadings ease downward and as annual meetings approach.

Results across this broad front probably will have more influence on the two carriers' wish to push merger talks, than any plans now in the works. The investor will be wise to follow, then, the causes of action rather than the announced action itself. END

Industries To Be Involved In The Missile Program

(*Continued from page* 326)

the first efficient rocket fuel, purely of its own volition during the 1930s. North American Aviation's Chem-Mill process was the independent invention of one of its engineers; and the greatest forward step in rocket steering mechanisms was perfected by the Convair Division of General Dynamics in the 1940s, without government aid or encouragement.

High Energy Fuels

Among the most important problems is the development of more efficient and less bulky fuels. The Russians, if we are to take their claims at face value have developed one superior to anything we have, but from her limited descriptions the Sputnik launchers were liquid powered, posing the same difficulties that we must overcome.

We don't know where the Russians stand, but enormous progress in reducing fuel bulk while attaining more power has already been made in this country. Thiokol Chemical, Aero-jet General and Phillips Petroleum have pioneered the search for solid propellants to replace the bulky liquids. They don't pack the same wallop yet, but they are coming fast and are already in use for second-stage rockets, enabling them to carry an immeasurably larger pay-load. Furthermore it is generally believed that metallic fuels, with tremendous power are only a few years away – and nuclear propulsion power may not be far behind.

For a more detailed study of the high energy fuels, and the companies engaged in their development and production see "Revolution in Rocket Fuels" in the June 8, 1957 issue of THE MAGAZINE OF WALL STREET.

Developments In Electronics

No matter how powerful a missile may be, it is useless without an accurate guidance system. One simple navigational illustration is sufficient to comprehend the precision required. In conventional flight, an error in direction of one degree will put an aircraft one mile off its course in each sixty miles travelled. This inconsequential sounding error, when magnified by the 5,000 mile range of the ICBMs makes even an H-bomb an ineffective dud. For space travel, an undetected one degree error would place the ship in a limbo from which it could never return.

In the guidance field our electronics producers have no peers. And since most of the problems of aircraft guidance apply with equal weight to missiles our designs are in a particularly advanced state–although new materials must still be perfected to withstand the extreme temperature variations of a space trip, and the stresses components will undergo during the rapid acceleration in the initial stages of the journey.

Basically we possess two types of missile guidance systems, both exceptionally efficient in concept. The "inertial" systems are essentially flying computers programmed to guide the missile along a preset flight path. Electronic sensors detect course deviations instantaneously, feed them back into the computer which then calculates and directs the needed correction. The other system is "celestial", and as its name implies, receives its orientation and bearings from heavenly bodies.

One source of trouble in these mechanisms has been the tubes, for the stress of missile flight can tear them apart. But the industry has developed ceramic tubes with temperature tolerances as high as 350 degrees Centigrade and exceptional shock proof qualities. In addition, Consolidated Electrodynamics has developed some electronic instruments and measuring devices that operate accurately in 600 degree temperatures. Another firm has perfected a coating for electrical connections with temperature tolerances of 1800 degrees.

One of the most surprising of the newer discoveries is that many non-conductive materials become perfect electrical conductors near absolute zero (450 degrees below zero, Centigrade). Experiments now in progress using liquid helium to keep components in deep-freeze may be the electronic

breakthrough the entire industry has been aiming for. If feasible, the importance of this new field cannot be overstated. It will mean, among other things, that power sources for electronic devices can be reduced to miniscule proportions with no loss of efficiency. The savings in bulk and weight will conserve valuable space for fuels and payloads.

Re-entering The Atmosphere

Before an ICBM can be a truly effective weapon, the problem of re-entry into the "thermal thicket" of the earth's atmosphere must be mastered—and this is no mean trick as can be seen from some of temperatures we have been discussing. Metallurgical research has come a long way, but probably the ultimate solution will lie in ceramics, ceramic-coated metals, or in cermets (a combination of metals and ceramics). Thus by a curious twist of fate ceramics are being called upon to provide protection for the same metals that some years ago displaced this ancient industrial art. President Eisenhower has announced that we have already solved the re-entry problem, and if so, we may well be ahead in the missile race.

However, just re-entry is not the only difficulty along the road to an ultimate weapon. As they are now, ICBMs are relatively easy to intercept and destroy. Flying a preset, determinable course, they are almost useless in the face of an adequate defensive detection and counter-measure system. Missiles of the future therefore will not be "free-falling", but will carry elaborate electronic pilots capable of plying an evasive course and eluding interceptors. For this reason the success we have had in perfecting air-breathing jet-propelled missiles, such as the *Snark* are extremely valuable prototypes for ultimate weaponry, in addition to their current operation role in our national defense picture.

Industrial Challenges

For industry the challenges of the missile program—and if it comes to that, an interplanetary steeplechase—are enormous, despite the substantial progress already made. We are no longer in a position to laugh off interplanetary travel as just comic-strip fare, but it is still a long way off. Thus, the Russians may boast of "photon" propulsion, travel at the speed of light, and so on—and we can answer with "ion" propulsion and blueprints of the internal structure of space ships, but these are still in the fanciful stage.

Of greater immediacy is the problem of missile defense and foolproof detection systems, and the perfection of missiles capable of check-mating the Russian power play. Undoubtedly faster progress will be made now that the government has been spurred to include the diverse fields applying to missilry within the confines of one program. And from what has already been achieved we are off to a running start.

But if the challenge to industry is great, the profit potential is more conjectural. For this reason we are listing many companies in the accompanying table without further comment. As their participation in the program becomes profitable however, we will call attention to specific developments, and the companies to benefit. We believe this to be the only sensible way, for weaponry is not a magic investment road. The machine tool manufacturers, for example, may have a field day with their revolutionary new machines, but whether it will be sufficient to offset the effect of a decline in private capital spending is another matter.

All down the line progress, but not necessarily profits are the order of the day. National Distillers and Carborundum Co. have just begun full scale production of zirconium, and its offshoot, hafnium. General Electric has developed an iron "whisker" with properties that dwarf the finest steels. Fansteel Metallurgical and other specialists have created amazing new alloys, but the surface of the problem has just been scratched. And in fuels, ceramics, electronics and simple rubber gaskets industry has thousands of new projects to work on. Undoubtedly, as has been true in the past, most of the new products will have commercial as well as military potential, even if present profit potential is small.

Truly, the sky is no longer the limit! END

A Professional Evaluation of the Tax Outlook for 1958

(*Continued from page* 330)

applicable to both community property states and others. There will be a move in the next session to end this splitting of income. That, too, will be howled down unless determination, or the force of conditions, demands the revenues now lost.

Up for consideration will be revocation of the exemption of income from investment in state and municipal bonds—as to future issues. This would mean higher interest rates on state and local issues. It is certain to run into the argument that to remove this attraction now would be to make more difficult local assumption of school and other programs currently aided from Washington.

A closer look on "foundations" could turn up large new sources of income, but since it is impossible to determine without examination of each organization whether it is deserving of exemption, the amount to be realized if the proposed tightening takes place cannot be estimated.

In the same category of transactions, exemptions on gift taxes will be scrutinized, probably contracted.

When Congress recently called a halt to rapid tax write-off after 1959 for defense construction, it was generally accepted that a loophole had been firmly plugged. The Electric Consumers Information Committee plans to go to Congress in the next several weeks to point out that "Section 167" remains in the Revenue Act and to say: "The dimensions of the subsidy possible under this section make those of the rapid write-off look picayune by comparison." Quoted is a Federal Power Commission analyst who estimated that private utility companies, using either of two alternative methods allowed under "Section 167" would amass a subsidy of $18 billion over the next 20 years. The FPC says this applies to facilities added since Dec. 13, 1953 and, under the existing rule, the tax savings need not be passed on to consumers.

The National Rural Electrification Association has developed a table showing that on each $1 million of value of a new plant, a private utility company could charge of $247,576 in excess depreciation during the first 17 years of a 33-year life for the plant. The resultant deferred tax saving, says NREA, is $128,740. Even after reducing the $128,740 in deferred taxes assumed to be payable during the last 16 years of life of the new plant, the net benefits accruing over the 33-year period (figuring investment in plant or otherwise at 6 percent, compounded) would still be $473,740 on each $1 million of plant investment.

Closing Loopholes Can Lead To Lower Taxes

The Joint Economic Committee compressed an attitude of dissatisfaction with existing fiscal policies, including taxes, in the following language: "The Congress can close tax lopholes, end unreasonable exclusions of income from taxes, and stop the erosion of the tax base caused by such provisions as capital gains taxes, depletion allowances, stock options, family partnerships, etc. Closing loopholes—both legal and otherwise—leaves much room for offsetting the revenue loss by raising exemptions and thereby cutting taxes for all Americans.

"The long-run growth conditions of our dynamic economy call for constant attention to revision of the Federal revenue structure. Structural changes which broaden the tax base and improve the fairness of our tax laws would permit substantial reductions in tax rates while maintaining necessary revenues and would contribute to steady economic growth. Such revision is a continuing responsibility of the administration and of the tax committees of the Congress." END

The Current Recession

(*Continued from page* 333)

capital spending for the year, made last April, has already been revised downwards by almost 6% to the current level. The same downward revision would cut the projected '58 average to $32.4 billion and the low quarter to a $30 billion annual rate, for a 20% de-

cline. How much further it might go down in 1959 would depend on 1958 business and profits.

This all indicates that the business sector is probably a little weaker this time, than it was in '49 or '54. In any case, it is not any stronger and in view of upward pressures of wages and costs the profits picture will probably be poorer.

What About Supporting Factors Today?

The consumer saved the day in 1949 and 1954. Will he do it again? Nobody knows the answer to this question but recent surveys of consumer attitudes are not encouraging. They show growing concern over the general outlook and growing feeling that this is a bad time to buy automobiles or major durable goods. Layoffs in defense industries took place after these surveys were made so they probably understate the depth of consumer pessimism. Furthermore, weakness in the stock market always has a chilling effect on the willingness of people to buy, as department store officials are only too well aware.

The seasonally adjusted annual rate of retail sales, confirming these indications, has fallen 2.3% since August and probably dropped further in November. As the table shows, retail sales fell only 3.6% in all of the '49 contraction and 6.2% in '54. The unusual weakness this year is especially important since so many optimistic forecasts have been based on vigorous consumer buying.

In the '49 and '54 recessions, as noted earlier, consumers were helped by easy money, accumulated liquid assets and tax cuts. Most people have used up a lot of their liquidity by now, but easy money and tax cuts can still do a great deal to spark consumption today. The one question is whether the stimulation of government tax cutting may not be negatived by the resulting budget deficit and its depressive effect on business confidence in general. As far as easy money goes, despite Federal Reserve actions so far, the banks of the country are still in a tighter position than at any previous time since 1930, except for the last quarter of 1956 and earlier this year.

Foreign Markets Contracting

The other supporting factor in '49 and '54, the expanding international economy, threatens to be a weakening factor next year. In fact the international situation is probably the most overlooked source of weakness next year. Twelve years of boom and near boom have made Americans forget that the world is interdependent. What makes the situation today especially risky is that the U.S. economy is weakening at a time when almost the whole free world is undergoing a transition from boom to stability or decline.

The weakening in world commodity prices is a significant indicator of the slowing in demand all over the world, as nations take time out to digest the tremendous investment programs of the past twelve years. At the same time, a worsening of reserve positions is also responsible for some inability to buy. Thus, wool prices are down 15 to 20% from the close of the 1956-57 season, reflecting foreign exchange problems in Japan and France, two major importers, and the uncertain economic outlook in the U.S. and Britain.

World trade is already contracting. Next year it certainly will run below the estimated $210 billion record rate of the first half of 1957. Ship charter rates have been in a declining trend since 1956, leading to the lay-up of freighters all over the world. Primary producing countries, hit hard by the sharp declines in raw materials prices, have had to curb their demands for imported materials. This in turn has put pressure on the balances of payments of exporters of finished goods.

A softening world economy means that there will be no ready market for U.S. goods not needed here, that any sales we make abroad will be made in the face of bitter competition and, probably, trade barriers. Loring K. Macy, Director of the U.S. Bureau of Foreign Commerce, has already predicted a decline in U.S. commercial exports in 1958. They now are expected to total $20 billion in 1957.

Even more important, a weakening world economy means potential centers of crisis abroad. In 1929 the Hatry crisis in England struck a sharp blow at confidence in New York only a month before the stock market collapse. In 1931 the failure of the Creditanstalt in Austria had repercussions all over the world.

Today the French franc, devalued from 350 to 420 to the dollar only four months ago, is in trouble again. With French foreign exchange reserves almost exhausted, the franc has fallen to 520 to the dollar in recent weeks and the price of gold on the free market in Paris has risen correspondingly. With a $263 million credit from the International Monetary Fund already drawn, the next step is a U.S. loan but even this will postpone the day of reckoning only a few months at best. In the absence of fundamental reform, further devaluation is inevitable.

Even Germany, with its $6 billion foreign exchange reserve is not immune. With capital goods weakening and evidences of a softening in consumer demand visible, German business and financial circles were shocked in October by the disclosure that Henschel and Son, long the greatest locomotive manufacturers in Germany, were on the verge of bankruptcy, necessitating emergency credits from the German Government.

England's position in recent weeks has looked a little better. But it must not be forgotten that a currency reserve of little more than $2 billion is dangerously near rock bottom for a great trading nation. Any pressure on the reserve position—from speculation against the pound, increased drawings on sterling reserves by overseas raw material producers suffering from the decline in commodity prices, a shrinkage in U.S. sterling imports—might touch off a spiral of disastrous events.

Similarities to 1929

In the face of all these considerations, it is not at all clear why so many people are assuming that 1957-58 will be no worse than 1948-49 or 1953-54. It is at least as plausible to maintain that we are currently going over the crest of the great postwar boom, that we have pretty well used up the liquidity which was generated by World War II and Korean War inflation, and that we are in for several years of consolidation of the fantastic amount of capital

that has been put in place all over the world since 1945.

In some ways the current situation resembles that of 1929, also the culmination of a long boom. Then, as now, people were anticipating no worse than a mild setback, on the ground that the two previous postwar recessions, in 1923-24 and in 1927, had been minor ones. Indeed, as late as October 26, 1929, two days after the first of the great shakeouts in the stock market that culminated in Black Tuesday on October 29, one leading financial publication said:

> "Conditions do not seem to foreshadow anything more formidable than an arrest of stock activity and business prosperity like that in 1923. Suggestions that the wiping out of paper profits will reduce the country's real purchasing power seem far-fetched."

In the 1920's the great construction boom began to weaken in 1925, when residential building topped out. Office and other business building went on to a peak in 1929. Residential building in the post World War II boom turned down in 1955. Business building kept rising but the turn down in capital spending, and events such as Vincent Astor's reported difficulties in signing up sufficient rental space in his projected building, indicate a down turn next year.

The value of new construction activity has been running close to $50 billion a year and its almost uninterrupted upward thrust since the end of World War II has been the major expansive force, along with plant and equipment spending, which sparked economic growth in the United States. A weakening in this area is of crucial significance.

No evidence in the area of economics can be conclusive. But there are enough signs that we have reached the crest of a great postwar capital and construction boom to counsel caution to all but the boldest. Easy money and government deficit spending are popularly supposed to be the answer to all economic difficulties. They may be running into a stiffer test than they have ever had before. The past twelve years have repaid daring richly, but it now may be time for the cautious, prudent investor to come into his own. END

How Will Low Labor Cost Companies Show Up In A Recession

(*Continued from page* 350)

Montgomery Ward is the second largest mail order house. Wage costs are in the same category as the variety stores as personnel can be increased or decreased according to demand. Recent acquisition of The Fair in Chicago will contribute to earnings and is a forerunner of future profitable acquisitions. Stock offers a good yield of around 6.2% at present price of 32. Earnings promise relative stability.

Safeway Stores is the second largest grocery chain, with about $2 billion annual sales. Labor factor is low and offset by self-service. Indicated 1957 sales should reach $2.1 billion and year's earnings will approximate $31.5 million. On the basis of the shares outstanding following the 3 for 1 stock split, this would amount to about $2.50 a share earnings, which would compare with $2.14 a share in 1956. It is worth noting that as a result of the company's store improvement program, net profit margins have shown substantial widening in recent years. In 1955 the profit margin was 0.7%, in 1956, 1.28% and this year should approximate 1.5%. Further improvement in sales and earnings is looked for in 1958. At its present price of about 23 the stock is selling at only 9.2 times this year's estimated earnings.

In the container field, companies can benefit in depressed times by reduced labor costs through curtailing use of machines with resulting lay-offs of personnel. It should be observed though, that company workers are represented by the United Steel Workers, a strong aggressive union. Contracts however, have been negotiated through June of 1959.

Continental Can has become the largest and most diversified within the container industry as a result of the acquisitions of Hazel-Atlas and Robert Gair Company. Sales for the current year should run about 5% ahead of last year's $1,010 million, and net profit per share just under the $3.72 per share of 1956. Estimated at $3.65 per share at the current price, it

is selling at 11.4 times earnings and affords a yield of 4.3%. It should be held. The recent entry of the company into other fields gives the stock a more favorable long range growth potential. END

A Fresh Appraisal of the Coal Industry Today

(*Continued from page* 345)

1947, to 55.9% last year. Most interesting is the fact that during the calendar year 1956, 647 bituminous and lignite operating companies produced some 431 billion tons of the total half billion ton volume; thus about 12% of the estimated 5,500 such companies in the United States dug 86.1% of the total. And furthermore, the leading companies in the group benefited most importantly from last year's 7.5% gain in production. Pittsburgh Consolidation Coal boosted its tonnage last year by more than 13%, and mined 6.3% of the nation's total production. The largest captive group, U. S. Steel, produced 4.5% of the total. 76 operators each dug more than 1 million tons, with 15 companies achieving increases of better than 20%, and 5 raising their output more than 40%.

Future Outlook for Bituminous Coal

Notwithstanding this year's pause in its recovery cycle and the possibility of further recession in 1958, the bituminous coal industry seems well situated to face the future with more confidence than at any time in the recent past. This is due to a number of factors, of which the continued growth in productivity is perhaps the most meaningful. Not only will the further improvement of present mining equipment boost mechanization and quality, but plans for new machinery on the drawing board promise further astounding developments. There is, furthermore, every likelihood that energy requirements will show further sharp acceleration during the coming decades, so that bituminous coal, having recovered its basic health, should be in good demand.

But bituminous industry leaders are not resting content with their well-charted gains in productivity. They are making other aggressive moves in their battle to maintain their newly-found competitive position. The industry has taken the railroad freight problem under precise study, and has even gone beyond the planning stage in by-passing, at least to a limited extent at the present time, the old iron horse. Pittsburgh Consolidation has now constructed the first long distance coal pipeline, designed to carry crushed coal in a water slurry for a distance of more than 100 miles from Cadiz, Ohio to Cleveland under a long-term utility contract! Then also, in order to stabilize coal freight rates on the Atlantic Ocean and thereby to give a strong assist to Western European industry in planning more consistant reliance on American coal, our bituminous companies have created American Coal Shipping, Inc. This is a joint venture of a group of leading producers, the United Mine Workers and the Virginia tidewater railroads, another concrete example of the new era of cooperation between the industry and the miners.

With the expected strong rise in total United States energy requirements, coal production in coming years has been projected at some fancy figures—up to a billion tons a year within the next quarter century. In order to bring in the added facilities required for this huge volume, the industry will be confronted with some equally huge capital requirements. There seems little doubt that the larger companies which are in a favorable financial position will be able to borrow substantially; Island Creek, for example, is in a somewhat unique financial position as its common shares are preceeded by only a very small issue of preferred stock. A larger depletion allowance than the present 10%, which can reasonably be expected in the not too far distant future, should be of help in this respect. In terms of present dollars, it costs between $8 and $10 per ton of annual production today to put a new mine into operation. It has been estimated that up to $6 billion will be needed by the industry if it is going to keep pace with the expected demand.

Pittsburgh Consolidation Coal Co. is the nation's largest producer of bituminous coal with annual capacity of some 40 million tons. Net sales last year rose to more than $335 million, with per share earnings amounting to $2.39. The company acquired the Pocahontas Fuel Company last December, an important producer of low volatile coal with an annual capacity of about 11 million tons. For the first nine months of this year, Pitt. Consol's. per share earnings rose to $2.08 a share, compared with $1.68 in the like period last year. Dividends have been paid since 1946, and presently amount to $1.20 per share annually.

Island Creek Coal Company, the nation's third largest soft coal producer, has extensive reserves of metallurgical coal. The company has grown importantly in recent years following three favorable mergers. Gross sales last year rose to $117 million, with per share earnings advancing to $4.03 from $3.17 a year earlier. For the nine months ending September 1957, Island Creek reported earnings of $3.14 a share, compared with $2.61 in the same period last year. The company has no long term debt, the common

is selling at 11.4 times earnings and affords a yield of 4.3%. It should be held. The recent entry of the company into other fields gives the stock a more favorable long range growth potential. END

A Fresh Appraisal of the Coal Industry Today

(*Continued from page* 345)

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> "Both the rail and industrial averages broke through the lows set in the week ending July 19, signalling a secondary reaction."

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shares being preceeded by only a small issue of preferred stock. Common dividends have been paid since 1912, and presently equal $2 a share per year.

Pittston Company although a holding company, is well diversified, and is a major producer of bituminous coal with earnings from this source last year contributing some 65% of consolidated net income. Pittston coal reserves are estimated at the 1 billion ton level, and this company, too, has grown in the past year following an important merger with the Clinchfield Coal Corporation. Earnings last year amounted to $6.30 per share, with per share results for the first half of this year rising to $3.78 from $2.50 in the first six months of last year. Dividends have been paid without interruption since 1947, and presently equal $1.20 per share.

Eastern Gas and Fuel is one of the nation's largest commercial producers of bituminous coal, as well as a holding company with diversified interests. However, 55% of profits before taxes and interest last year were derived from coal operations, based largely in West Va. The company operates a fleet of ocean going colliers, and among its other assets is 58% ownership of the Virginian Railway. Dividends were initiated in 1951, and presently equal $1.60 a share plus 4% in stock. END

Will Power Generating Companies Keep Steaming Along?

(*Continued from page* 348)

public works fields is holding up and the company has expanded its facilities. Sales for 1957 thus should exceed the $170 million of 1956; but the earlier estimate of $200 million is not likely to be attained because of a slackening in air conditioning business.

Allis-Chalmers is one of the largest of the farm machinery makers, with important diversification in heavy electrical equipment and in machinery lines. Only about 15 per cent of the company's business is in heavy electrical equipment. In 1956, a rise in buying by utilities brought an increase in orders for Allis-Chalmers equipment such as turbine generator units, substations, transformers, switchgear, and circuit breakers. Reduced demand for agricultural machinery in recent years has been a handicap to earnings, but future prospects for each of the company's divisions is considered bright.

Looking further into the future, prospects for the use of atomic fuel in the generation of electricity open new opportunities for Allis-Chalmers who is a pioneer in this field. The company also has contributed to atomic energy projects.

Carrier is the oldest name in air conditioning. For purposes of this study, only the acquisition of Elliott Co., a producer of electrical equipment including a wide range of electric motors, steam turbines, heat transfer apparatus, and industrial process equipment, on August 1, 1957, brings the company under this general classification. This acquisition would have added 23 per cent to 1956 output. Sales and earnings of the company have improved fairly regularly in the postwar period, and dividends have been conservative.

It is clear that growing electric consumption has found reflection in the order backlogs of the power engineering companies. In this current period of rolling adjustment in the nation's economy, some of these backlogs of orders may be reduced but on the whole the implications and impact upon the fortunes of the companies involved are not unfavorable. END

For Profit and Income

(*Continued from page* 353)

$4 within 1958, in view of a probable further gain in profits. Among others in the group, Lorillard, with a poor past record, has become a radically-changed situation as a result of the spectacular success of its Kent brand of filter-tip cigarettes. Sales have risen more sharply than any one, including the management, could have foreseen. Earnings were $1.34 a share last year, little in excess of the $1.20 dividend. Around mid-1957, allowing for a price boost, it was thought they might be around $2 a share this year. It is now indicated that they will exceed $3; and that profit in the present quarter will approach an annual rate nearer $6 a share. The company recently voted a 75-cent extra, bringing 1957 dividends to $1.95. The stock has now risen from 1957 low of 15⅝ to 28¾. We cannot say whether Lorillard will hold its present improved position. If you are willing to assume so, the stock, priced around 5 times presently-indicated earning power, can still be considered undervalued.

Cross-Currents

At this writing the stock groups performing better than the market are principally building materials, chemicals, drugs, electrical equipment, finance companies, office equipment, paper, radio-television, electric utilities, gas pipe line stocks, food stores and tobaccos. Groups faring worse than the market at this time include automobiles, coal, copper, machinery, metal fabricating, bank stocks, railroads, rail equipments and textiles.

Cheer

The over-all dividend picture, neither rosy nor bad, is not without some spots of cheer. Here are a few increases in rates or in indicated 1957 total payments: Florida Power Corp., $1.80 to $2; Pfizer, $1.75 to $2.10; Pepsi-Cola, $1 to $1.20; American Chicle, $3 to $3.50; American Home Products, $2.50 to $3; Parke Davis, $1.70 to $2.15; Hertz, $1 to $1.20; American Gas & Electric, $1.44 to $1.60; Stone & Webster, $2.25 to $3; Sherwin-Williams, $5 to $5.50; National Biscuit, $2 to $2.20; U. S. Gypsum, $2.50 to $2.75; and United Aircraft, a boost equivalent to 20% via maintenance of the previous $3 rate after voting a 20% stock dividend. —END

The Trend of Events

(*Continued from page* 319)

ders have always been cognizant of the spurious value of their propaganda. On the other hand, they have learned from experience to expect leadership from the United States, so that all we have to do is to think in terms of solving our problems and forget all about the fact that Russia for once was first in anything. END

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